Food Fair, Incorporated Annual Report -- 1980
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Fiscal Year Ended	Commission File No.
August 2, 1980	1-2956

FOOD FAIR, INC.

(Exact name of Registrant as specified in its charter)

Pennsylvania	23-1172640
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6500 North Andrews Avenue, Fort Lauderdale, Florida 33309
(Address of Principal Executive Office)

Registrant's telephone number, including area code: (305) 771-8300

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered*
8⅜% Sinking Fund Debentures Due January 15, 1996	None*
4% Subordinated Debentures Due April 1, 1979	Philadelphia Stock Exchange*
Common Stock, $1 par value	Philadelphia Stock Exchange* Pacific Stock Exchange*

Securities registered pursuant to Section 12(g) of the Act:
NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed with the Commission by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days.

Yes X No ____

7,358,277
Number of Shares of Common Stock Outstanding as of August 2, 1980

*See "Delisting of Securities" under Item 1.

SPECIAL NOTICE

REFERENCE IS HEREBY MADE TO THE REPORT OF THE REGISTRANT'S INDEPENDENT PUBLIC ACCOUNTANTS ON THE CONSOLIDATED FINANCIAL STATEMENTS INCLUDED IN THIS ANNUAL REPORT WHICH REPORT CONTAINS A DISCLAIMER OF OPINION FOR THE REASONS STATED THEREIN. AS PREVIOUSLY REPORTED BY THE REGISTRANT, CERTAIN INFORMATION RELATING TO FISCAL YEARS PRIOR TO THE FISCAL YEAR ENDING AUGUST 2, 1980 NORMALLY REQUIRED BY FORM 10-K IS NOT AVAILABLE TO THE REGISTRANT. AS A RESULT, ALTHOUGH MANAGEMENT HAS MADE REASONABLE EFFORTS TO ASSURE ITS ACCURACY IN ALL MATERIAL RESPECTS, THIS REPORT IS FILED IN RELIANCE ON RULE 12b-21 UNDER SAID ACT WHICH PROVIDES THAT INFORMATION NEED BE GIVEN ONLY INSOFAR AS IT IS KNOWN OR REASONABLY AVAILABLE TO THE REGISTRANT.

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Item 1. *Business*

Food Fair, Inc. (which together with its subsidiaries is hereinafter sometimes referred to as the "Company") presently operates a chain of retail food supermarkets in the Baltimore, Maryland, Norfolk-Richmond, Virginia and Jacksonville and Miami, Florida areas under the "Pantry Pride" and "Food Fair" names, and related food manufacturing and processing businesses which supply its supermarket operations as well as sell to third parties. The Company also operates certain non-food retail and wholesale operations, and conducts various miscellaneous operations. Since October 2, 1978, the date petitions were filed under Chapter XI of the Bankruptcy Act (see "Chapter XI Arrangement Proceedings" below), the Company has terminated its supermarket operations in the Pennsylvania, New Jersey, New York, Connecticut, and Tampa, Florida areas, discontinued its J.M. Fields discount department store operations, closed its meat processing and certain produce operations, and substantially completed a program for the disposition of real estate and other assets unrelated to its continuing operations.

CHAPTER XI ARRANGEMENT PROCEEDINGS

Background

On October 2, 1978, the Company and nine of its subsidiaries, including J. M. Fields, Inc., Hills Supermarkets, Inc. (then operating certain supermarkets in the Long Island, New York area), and Newcorp Supermarkets, Inc. (then operating certain supermarkets in the Philadelphia area), filed petitions under Chapter XI of the Bankruptcy Act with the Clerk of the United States District Court for the Southern District of New York seeking an arrangement of their respective unsecured indebtedness and liabilities. (Index Nos. 78 B 1764-1773). The cases were referred for all purposes to Bankruptcy Judge John J. Galgay (hereinafter referred to as the "Court"). On that date, the Court issued its order authorizing the filing corporations to continue operations as debtors in possession. The proceedings in Chapter XI for Food Fair, Inc. and the subsidiaries filing petitions have been procedurally consolidated and are being jointly administered under the caption "In re J.M. Fields, Inc. et al, Debtors" and are herein referred to collectively as the "Chapter XI Proceedings." Since the filings were made under the then effective federal Bankruptcy Act, the Chapter XI Proceedings are not subject to the new federal Bankruptcy Code which became effective on October 1, 1979.

Significant Events Subsequent to Institution of Chapter XI Proceedings

Since the commencement of the Chapter XI Proceedings, significant changes have occurred in the business, management and operations of the Company. These changes include: (i) the resignation of most of the members of former senior management and the retention of Grant C. Gentry as Chairman of the Board, President and Chief Executive Officer, and of other new executive and key personnel, and the election of experienced new outside directors; (ii) the retention of Touche Ross & Co., independent certified public accountants and management consultants, to assist management in its design of a viable operating structure for Food Fair, to generally assist in the Company's reorganization and to audit the Company's financial statements and make recommendations relative to operating and financial controls; (iii) the termination of all supermarket operations in the New York, Connecticut, New Jersey, Pennsylvania and Tampa, Florida areas, resulting in the closing of an aggregate of 222 stores (see "Continuing Operations" and "Terminated or Discontinued Operations" below); (iv) the discontinuance of the J.M. Fields discount department store operations; (v) the closing of the Company's meat processing and certain produce operations; (vi) the institution and substantial completion of a disposition program covering real estate and other assets unrelated to the Company's continuing operations; (vii) the payment, without prejudice, by the Company in May, 1979 of a $28 million secured loan, together with approximately $2.4 million of accrued interest, which was obtained in August, 1978 from certain bank lenders, and in October, 1979 of approximately $11,600,000 and in July, 1980 of $2,000,000 representing portions of an amount advanced by a certain bank lender pursuant to an accounts receivable financing (see Item 6 below); (viii) the relocation of the Company's executive offices from Philadelphis to Fort Lauderdale, Florida, a location more central to the Company's continuing operations; and (ix) negotiation of a proposed Plan of Arrangement as described below.

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On September 26, 1979 and October 4, 1979, the Official Creditors' Committees and the Court, respectively, approved the Company's proposed Capital Improvements Program. The program is intended to enable the Company to remodel and expand its supermarket facilities. Originally projected to involve the expenditure of $205 million over a five year period, the program was subsequently modified to involve the expenditure of $196.6 million over six years and to initially emphasize rehabilitation of existing facilities before expanding to new ones. Approximately $30 million was expended or committed under the program during the 1980 fiscal year, including $25 million from funds previously restricted in the Chapter XI Proceedings. The balance of the Capital Improvements Program must be funded through external financings, only a portion of which are presently arranged, and through continuing operations. There can be no assurance, however, that these or other sources will provide the funds needed for the Program.

Proposed Plan of Arrangement

On September 26, 1979, the Official Creditors' Committees approved the principal elements of a plan of arrangement which were filed with the Court on October 4, 1979. Revision of the original elements became necessary, principally as a result of the excess of liabilities over assets at the July 28, 1979 fiscal year end being substantially greater than prior estimates, delays in disposing of assets not related to ongoing operations and substantial reduction in anticipated proceeds therefrom. The revised elements were approved by a majority vote of the Official Creditors' Committees on April 28, 1980, and the Company filed the proposed plan of arrangement based on such elements with the Court on May 7, 1980. An Amended Consolidated Plan of Arrangement (the "Plan") was approved by the Official Creditors' Committees in late July 1980 and filed with the Court on August 4, 1980. The Plan is predicated upon a substantive consolidation of the Chapter XI Proceedings of the Company and its nine subsidiaries in Chapter XI for purposes of settlement of all creditors' claims.

The essential purpose of the Plan is to restructure Food Fair's obligations to unsecured creditors existing at the time of the commencement of the Chapter XI Proceedings ("Creditors") in a manner which is in their best interests and feasible in accordance with the Bankruptcy Act so as to enable Food Fair to emerge from Chapter XI as a viable business entity. The Plan envisages retention of sufficient assets by Food Fair to continue its business and to make the payments to the Creditors provided in the Plan. Restructuring of the debt to the Company's Creditors under Chapter XI is required because Food Fair's balance sheet liabilities substantially exceed its assets, with its unsecured pre-Chapter XI liabilities estimated at approximately $386 million and net assets available to pay such liabilities (excluding assets of continuing operations) estimated at approximately $122,000,000. (As of August 2, 1980 an estimated net $170,000,000 had been realized from liquidation of assets not associated with continuing operations of which, pursuant to Court orders, $25,000,000 have been applied to the Company's Capital Improvements Program for the ongoing supermarket operations, and approximately $52,000,000 have been paid on interim allowances of bankruptcy administrative expenses, secured indebtedness and employee-related claims.) The net proceeds from any disposition of continuing operations cannot be determined, but in Food Fair's judgment after receipt of any such net proceeds a substantial deficiency in assets to pay liabilities would remain.

The Plan as discussed in more detail below provides for restructuring by the following steps:

(a) Direct reduction of the amount owed to Creditors in Class 1 by forgiveness of a part of the debt, and with payment of part of such claims also dependent on generation and availability of cash from future operations.

(b) Deferred payment of a portion of the amounts owed to Creditors.

(c) Issuance of various classes and series of Preferred Stock to classes of Creditors as described below, with a commitment by the Company to make future cash payments to retire (a) all Liquidating Preferred Stock and (b) an undeterminable amount of Class A Preferred Stock to be issued on Class 2 claims and Class B Preferred Stock to be issued on Class 3 claims.

(d) Issuance of 2,200,000 shares of Common Stock on Class 3 claims.

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The Plan was developed on the assumption that a minimum of $10,000,000 annually would be available for the indefinite future from the post-Chapter XI operations of Food Fair to make minimum cash payments to Creditors required by January 15, 1985, and to retire all the Liquidating Preferred Stock exchanged for the pre-Chapter XI unsecured debt as part of the Plan, and to pay dividends and to make possible redemption of Class A and Class B Preferred Stock also so issued. A further assumption was that the future economic success of Food Fair required the availability through cash flow resulting from operations and future financing of approximately $172 million over the six years beginning August, 1979 of a capital improvements program of modernization, replacement and expansion of supermarket locations.

There is no assurance, however, that such assumptions will be realized since the Company's revenues, profitability and financial conditions in subsequent years are substantially dependent upon general economic conditions, actions by competitors, availability of financing for capital improvements, effectiveness of the recently organized management group, improvements in financial, operating and accounting controls and systems, and many other factors not now determinable.

The performance of the Plan is also dependent upon the Company having sufficient cash available to make deposits at Confirmation and the direct payments required by the Plan at March 31, 1981, such deposits and payments aggregating 30% on Class 1 and Class 2 and 3.33% on Class 3 claims, and the balance necessary to reach a cumulative total of 45% on Class 1 and Class 2 claims and 5% on Class 3 claims by January 15, 1985, and upon certain other contingencies. See Note 1.6 of notes to consolidated financial statements. The Company believes that such direct cash payments can be made from a combination of disposition proceeds, cash flow from operations, other cash generating programs, sale of assets not currently held for disposition, temporary financings, and temporary use of cash committed to operations or capital programs, but there is no assurance the payments can be so accomplished. See "Terminated or Discontinued Operations--Application of Proceeds of Asset Dispositions" with respect to claims of creditors of subsidiaries not party to the Chapter XI Proceedings to a portion of disposition proceeds.

Economic conditions have substantially affected original expectations in mid-1979 as to net proceeds to be realized from disposition of assets not related to the ongoing business of Food Fair and the period of time required to dispose of such assets. Lack of reasonable available funds to potential buyers to finance purchases and the high cost of such financing substantially reduced the purchasing interest in the disposition assets (principally real estate). The extended period in which the Company has been required to hold such assets also resulted in many cases in carrying costs (i.e., utilities, security, local taxes and other charges) far in excess of original estimates.

There is no assurance that the assets which the Company now holds for disposition can be sold and amounts realized to permit cash deposits required at Confirmation and additional amounts necessary for cash payments required by March 31, 1981, or that sales to meet such deadlines for payment will result in net realizations as large as otherwise obtainable. As indicated above, the Company expects to engage in interim financing, sale of assets not currently held for disposition, other cash generating programs, and temporary use of cash committed for other purposes to provide the needed funds, contemplating that such financing will be discharged and funds restored when the assets held for disposition are sold or additional cash is obtained from operations.

A copy of the Plan was filed with the Securities and Exchange Commission as an Exhibit to the Company's Report on Form 8-K dated August 8, 1980 and is incorporated herein by reference. Reference is made to that exhibit for a complete statement of terms of the Plan and the description set forth below is qualified in its entirety by that reference. Words capitalized in the description have specific definitions in the Plan.

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Under the Plan, the Company is obligated to pay its Creditors, whose claims are divided into the classes described below, the following in full settlement and discharge of such claims, including such claims as may be available to certain Creditors under Uniform Commercial Code Sec. 2-702 for reclamation of goods within 10 days of receipt of such goods or for fraud in delivery of goods under Section 17 of the Bankruptcy Act:

(a) Disposition Proceeds (net amounts realized from sales of assets not related to ongoing operations).

(b) $10,000,000 annually ("Fixed Payments") for up to 20 years starting with Confirmation and continuing through a period (the "Payment Period") of 16 years beginning no later than January 15, 1985 after cash payments of 45% of claims have been paid to Class 1 and Class 2 Creditors and 5% of claims has been paid to Class 3 Creditors, plus an additional $3,500,000 (in addition to the $10,000,000 annual payment) in the sixteenth year of the Payment Period.

(c) A "Contingent Payment" of 50% of Excess Cash Flow beginning after Confirmation and continuing through the Payment Period. Excess Cash Flow is essentially the Company's funds derived from operations and other sources in excess of those committed to the Capital Improvements Program, payments under the Plan and the 3% of sales deemed to be the operating cash requirement of the Company. A "Contingent Payment" of up to an additional 50% of Excess Cash Flow may also be required in years 7 through 9 of the Payment Period to the extent necessary to pay Class 1 Creditors a cumulative total of 80% of their claims.

The cash to be paid out by the Company will be applied during the 16 year Payment Period to retirement of and dividends on the following Preferred Stock also to be issued to Class 1, 2 and 3 Creditors following the date the Court confirms the Plan ("Confirmation"):

Liquidating Preferred Stock (nondividend bearing) to be liquidated for $10 per share at the rate of $10,000,000 per year over the first 9 years of the Payment Period, to be issued as follows:
4,380,000 shares of Series A to Class 1 creditors
4,080,000 shares of Series B to Class 2 creditors
540,000 shares of Series C to Class 3 creditors

Class A Cumulative Convertible Preferred Stock, bearing dividends during the Payment Period at rate of $1 per share for 14 years, with compounding adjustment for unpaid dividends, convertible into approximately 4,400,000 shares of Common Stock and redeemable for $10 per share plus accrued dividends to be issued as follows:
3,800,000 shares (estimated) to Class 2 creditors

Class B Cumulative Preferred Stock, bearing dividends during the Payment Period at rate of $.685 per share for 14 years and $1 per share thereafter, with compounding adjustment for unpaid dividends, to be issued as follows:
1,940,000 shares (estimated) to Class 3 creditors

All shares to be delivered to Creditors are expected to be issued by a new Delaware holding company ("Holding Company"), subject to the approval of the Shareholders of the Company. The Company will agree to pay to the Holding Company, for distribution by it, all amounts necessary to make the payments required by the Plan with respect to stock so delivered to Creditors (whether as dividends, in redemption or otherwise).

At the beginning of the Payment Period, an estimated 700,000 additional shares of Class A Preferred Stock and 100,000 shares of Class B Preferred Stock will be distributed to holders of Class 2 and Class 3 claims, respectively, in order to adjust for the difference between present value of Fixed Payments at the beginning of the Payment Period with respect to stock delivered to such holders, and the present value of such Fixed Payments if they had commenced with Confirmation.

An aggregate of approximately 2,200,000 shares of Common Stock will be issued to Class 3 Creditors.

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All Class A and Class B Preferred Stock outstanding at the end of the Payment Period will be automatically converted into shares of Common Stock of Holding Company having the same ratio to total outstanding Common Stock after such conversion as the then aggregate redemption prices of such Preferred Stock bears to the excess of consolidated assets over consolidated liabilities (not including Preferred Stock in such liabilities).

Under the Plan, the Company's cash payments and issuances of securities will be made to the creditors in various classes as follows:

Priority, administrative and union and employee related claims	Total claims: Approximately $82,000,000*--unpaid balance of approximately $30,000,000 to be paid in cash in full prior to or on the Consummation Date (scheduled to take place not later than 31 days after Confirmation).
Class 1 (generally trade creditors excluding amounts included in Class 4) (approximately 10,000 Creditors with estimated claims totaling $180,000,000 to $200,000,000*)	To receive in cash 25% of claims on the Consummation Date, an additonal 5% not later than March 31, 1981 and an additional 15% by January 15, 1985. Class 1 Creditors will also receive $43,800,000 in Liquidating Preferred, Series A to be liquidated at the rate of $7.3 million per year in the first six years of the Payment Period. In addition the Class 1 Creditors will receive a pro-rata share of 50% of Excess Cash Flow in the first six years of the Payment Period and to the extent necessary to achieve a total payment of 80% of claims will receive the Company's 50% of Excess Cash Flow in the years 7 through 9 of the Payment Period. To the extent 80% is not paid by the ninth year of the Payment Period the unpaid obligation of the Company with respect thereto is extinguished.
Class 2 (non-subordinated lenders, principally banks, excluding amounts included in Class 5, and holders of 8 ⅜% Debentures due 1996) (approximately 400 Creditors with claims totaling $110,000,000 to $115,000,000)	To receive 25% in cash of claims on the Consummation Date, an additonal 5% by March 31, 1981 and an additional 15% by January 15, 1985. Class 2 Creditors will also receive $40,800,000 of Liquidating Preferred, Series B to be liquidated at the rate of $2,100,000 per year in the first six years of the Payment Period and $9.4 million per year in years 7 through 9 of the Payment Period. In addition Class 2 Creditors will receive 4,500,000 (estimated) shares of Convertible Preferred Class A Stock. Class A Preferred holders are to receive in dividends and for redemption $9.4 million per year in years 10 through 14 of the Payment Period.
Class 3 (subordinated lenders, including holders of 4% Debentures due 1979) (approximately 1,000 Creditors with claims totaling $28,100,000)	To receive the lesser of 1% of Available Cash or 5% of Claims on the Consummation Date, a cumulative total of not less than 3.33% of Claims by March 31, 1981 and an additional 1.67% by January 15, 1985. On the Consummation Date Class 3 Creditors will also receive 2,200,000 shares of Common Stock and $5,400,000 of Liquidating Preferred, Series C to be liquidated at the rate of $600,000 per year through the

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	first 9 years of the Payment Period. In addition, Class 3 Creditors will receive 2,050,000 shares of Class B Preferred Stock. Class B Preferred holders are to receive in dividends and for redemption $600,000 per year in years 10 through 14 and an aggregate of $23,500,000 in years 15 and 16 of the Payment Period.
Class 4 (claims based on receipts of merchandise in period September 27, 1978 to October 1, 1978) (approximately 1,700 Creditors with estimated claims totaling $15,000,000**)	To receive in cash on the Consummation Date the lesser of 100% or a pro-rata portion of $13,400,000, with additional annual installments to the extent necessary to make full payment on class 4 claims of up to $1,000,000 each on the first two anniversaries of the Consummation Date and any remaining balance on the third anniversary thereof; provided, however, if Confirmation occurs later than January 1, 1981, said maximum installment payments of up to $1,000,000 each shall become maximum payments of up to $1,500,000 each.
Class 5 (bank overdrafts in period September 27, 1978 to October 1, 1978) (7 Creditors with claims totaling $3,600,000)	Limited to 60% of overdrafts and aggregate claims, to be paid in cash on the Consummation Date with the balance of such overdrafts being included in Class 2.
Class 6 (claims of Class 1 Creditors of $350 or less and those accepting $350 in full settlement)	Estimated at less than $1,000,000 to be paid on the Consummation Date.

*Filed claims substantially exceed the estimated amounts, but the Company believes that allowed claims will be substantially less than filed claims. See "Operations - Employee Relations" with respect to contested pension plan claims included in the above estimates at a small fraction of the filed amounts.

**Does not include claim of receiver for Filigree Foods, Inc. from whom the Company received $2.2 million of merchandise in the period September 27-October 1, 1978. Net claims of such receiver (totalling $4.7 million of nondisputed claims and $2 million of disputed claims and offsets) were settled, with Court approval, by agreement to pay the receiver $1,450,000 on Consummation, $375,000 on March 31, 1981 and 5 monthly installments of $125,000 beginning June, 1981, with interest at prime rate on 1981 payments.

Class 1 Creditors may elect to be treated as Class 2 Creditors, and Class 2 Creditors may elect to be treated as Class 1 Creditors, but crossovers into Class 1 shall not exceed crossovers into Class 2 and the amount of crossovers into Class 2 may not exceed by more than $25,000,000 crossovers into Class 1. To the extent that there are crossovers into Class 2, amounts to be distributed on Class 1 claims shall be proportionately reduced and distributed to Class 2 Creditors. Amounts of claims in Classes 1 and 2 and securities to be delivered to each shown above have assumed no elections for cross-over treatment by Creditors.

Fifty percent of Excess Cash Flow will be distributed pro-rata to Class 1 Creditors and holders of Class A and Class B Preferred Stock after Confirmation through the first 6 years of the Payment Period, pro-rata to holders of Class A and B Preferred Stock during years 7 through 14, and pro-rata to holders of Class B Preferred Stock in years 15 and 16 (such distributions to holders of Preferred Stock being first to pay current and past dividends and then to accomplish redemption). In years 7 through 9, the remaining fifty percent of Excess Cash Flow will be distributed on Class 1 claims to the extent necessary to achieve 80% of such claims.

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Payments based on Excess Cash Flow are entirely contingent on results of future operations and other unknown factors and there is no assurance of any such payments. Under current expectations the Company will have no Excess Cash Flow for the foreseeable future.

The operation of the Plan and the distribution to be made to Creditors in the various classes in the Plan depend on the determination of the amount of claims filed and allowed in each class. Since substantial claims are either unliquidated or disputed, or may involve election by the Creditors or decisions by the Company not yet made (e.g. disaffirmation of leases), the amount of the claims and the amount of securities to be issued in certain cases cannot now be determined. Accordingly, the amounts of claims and cash to be paid or securities to be issued to various creditors shown as estimates or ranges in the foregoing summary of the Plan could vary on final determination.

The proposed Plan contains covenants which, among other matters, (i) require the Company to maintain specified levels of consolidated tangible net worth, as defined; (ii) limit purpose and amount of additional indebtedness that can be incurred; (iii) restrict the payment of cash dividends; and, (iv) limit the extent to which the Company may acquire or dispose of specified assets.

The Plan provides a mechanism by which the Company can obtain relief from the covenants. This mechanism essentially requires the obtaining of advance approval to the modification from not less than 25% of the outstanding Voting Amount of Claims or Preferred Stock subject to there not being objections made by 10% or more of the Voting Amount of said Claims or Preferred Stock. In such event any modification would require the consent of the majority of the Voting Amount.

The Plan will require acceptance by a majority in number and amount of each class (as described above and more specifically defined in the Plan) of the Company's unsecured creditors, who have filed claims and are eligible to vote, and must, among other things, be found by the Court to be feasible and in the best interests of the Creditors within the meaning of the Bankruptcy Act. In addition, certain actions necessary to implement the Plan, namely the merger of the Company with a subsidiary of Holding Company (to be known as Pantry Pride, Inc.) by which the present shares of the Company will be exchanged share for share into like denominated shares of Holding Company must be approved by the Company's shareholders. Holding Company shall have a capital stock structure consistent with the terms of the Plan, including revision of the terms of the Company's outstanding $4.20 Cumulative Preferred Stock, 1951 Series.

Consummation of the Plan is also dependent upon the Company's receipt of a favorable tax ruling from the Internal Revenue Service.

In May, 1980, the Management Services branch of Touche Ross & Co., which since October, 1978 had been supplying substantial services relating to the Chapter XI Proceedings, indicated that at that time there were inadequacies in the Company's management process, i.e. with respect to management staffing and systems of internal and management control, that could affect the feasibility of the Plan if it then had been considered for confirmation. However, at the same time Touche Ross indicated that various programs then being undertaken by the Company constituted a reasonable means to significantly reduce the risk as to feasibility. Management believes that these programs, some of which are still ongoing, have served to reduce or eliminate the various inadequacies. See "Accounting and Financial Disclosure Developments" and "Management's Responsiblity for Financial Statements."

The Company presently anticipates that it will present the proposed Plan to its Creditors for their requisite acceptance and the implementing actions for shareholder approval within the next several months. Should the Plan not be accepted by the Creditors and confirmed by the Court, or should the Company's shareholders fail to adopt all the necessary implementing actions, or should the Plan not be feasible because of inadequate cash to make initial deposits or payments, the Company could be adjudicated a bankrupt and its assets liquidated, or the Chapter XI Proceedings could be transferred to proceedings under Chapter X of the Bankruptcy Act, in which event control would pass to a court-appointed trustee. In the event of either

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bankruptcy or Chapter X proceedings it is expected that the Company's shareholders would receive nothing since outstanding liabilities, which in such cases must be paid before any distribution to shareholders, substantially exceed any reasonable anticipated funds available for such purposes.

Accounting and Financial Disclosure Developments

As Food Fair's new management was being organized during 1979, the presence of significant pre-existing and continuing deficiencies in the Company's systems of internal accounting controls and record-keeping became increasingly evident. These deficiencies and management's ability to respond thereto were significantly impacted by the dislocations engendered by the Company's pending Chapter XI Proceedings, including the closing and liquidation of approximately two-thirds of the pre-existing business operations, the significant turnover in management, financial and accounting personnel, and the critical need for senior management to focus much of its efforts on business liquidations, identification and re-establishment of a profitable enterprise, and development of a plan of arrangement acceptable to the Company's unsecured creditors. Out of necessity, temporary systems were developed for handling of accounts payable and cash during the disruptions following the institution of the Chapter XI Proceedings and the closing and liquidation of major operations.

In response to these deficiencies and to replace temporary systems with more permanent ones, the Company has assembled a new financial and accounting management group of greater depth; restructured its internal accounting organization; improved its management reporting systems; reconstituted the Audit Committee of its Board of Directors and has made substantial efforts in developing and implementing a new budgeting and control process, including an accounting policy and procedure manual. In addition, it acquired the electronic data processing assets of a firm that previously provided this function to the Company in order to develop an EDP function better capable of assisting in the design of new accounting and operating systems.

Notwithstanding the efforts made, a number of material deficiencies continued to exist during 1979 in the Company's systems of internal accounting controls and recordkeeping, many of which were discovered and documented in connection with the audit of the Company's consolidated financial statements for its 1979 fiscal year. These deficiencies generally included certain organizational weaknesses; the lack or inadequacy of certain systems, procedures and controls, or the documentation with respect thereto; and the inability to locate certain pertinent books and records (which inability is believed to be related to physical relocation of records and departure of large numbers of accounting personnel familiar with such records and their location). In addition to actions previously taken or initiated, management is working on an ongoing plan to strengthen and improve accounting systems, review and revise operating budgets on an ongoing basis, strengthen and improve financial policies and controls, improve data processing support, monitor and manage cost reduction programs, and improve record retention and storage. This plan covers the areas in which the Company and its independent auditors had discerned significant deficiencies in internal accounting controls. In addition, a new financial systems staff has been working to strengthen the Company's systems of internal accounting controls, and an internal audit function has been re-established.

As a result of the deficiencies described above in the Company's systems of internal accounting controls and recordkeeping, the consolidated financial statements for the fiscal year ended July 28, 1979 included in this report (i) omit certain disclosures required by generally accepted accounting principles and (ii) include certain charges to fiscal 1979 operating results that in part do or may pertain to operations of prior and/or future years. Furthermore, the Company's independent auditors reported that these deficiencies prevented their completing tests of accounting records and other audit procedures they considered necessary in order to comply with generally accepted auditing standards in connection with their review of the fiscal 1979 financial statements. However, in their examination of the Company's consolidated financial statements for the fiscal year ended August 2, 1980, its independent auditors did not make note of similar deficiencies.

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The actions described above taken by the Company were designed to provide reasonable assurance as to the reliability of the financial records and the protection of assets against loss from unauthorized use or disposition. Management believes that the Company's system of internal control provides, as of August 2, 1980, such reasonable assurance and expects to continue to modify and improve its system of internal accounting control, in order that it can and will be capable of reporting reliable operating and financial information on a timely basis. See "Management's Responsibility for Fiancial Statements" herein.

OPERATIONS

The Company now operates as a unitary segment, and therefore, segment information presented in accordance with Statement of Financial Accounting Standards No. 14, "Financial Reporting for Segments of a Business Enterprise" is not meaningful and has not been presented herein. Prior years segment information for the now discontinued J.M. Fields discount department store operations is included in Item 1 of Form 10-K for the year ended July 29, 1978.

CONTINUING OPERATIONS

Supermarket Operations

As of August 2, 1980, the Company was operating an aggregate of 203 supermarkets, located in Florida (120), Maryland (48), Delaware (7), Virginia (19), Georgia (7), and the Bahamas (2), as compared to the 213 at July 28, 1979 and 444 stores in operation at July 29, 1978. After the commencement of the Chapter XI Proceedings the Company closed 222 stores in its New York, Connecticut, Pennsylvania, New Jersey and Tampa, Florida areas, 210 of which were closed pursuant to specific court approval as described below. In addition, 28 supermarkets were closed in the ordinary course of business since July 29, 1978. During the same period the Company opened 9 new supermarkets, including the acquisition in March, 1980, from The Grand Union Company, of 4 supermarket locations in the Baltimore, Maryland area.

The Company's supermarkets conduct their business on a cash-and-carry basis, selling a broad range of food and other products customarily sold in large American food supermarkets. The stores advertise through local newspapers, radio, television, hand-delivered and mailed circulars and by local promotions on a store-by-store or regional basis.

Virtually all of the Company's supermarkets are free-standing units or part of shopping centers, in most cases with adequate off-street parking adjacent to the store. Store sizes generally range from 12,000 square feet with an average selling area of 16,000 square feet. Virtually all of the Company's supermarkets are of the price competitive variety, emphasizing low prices to the customer seeking to offset low gross profit margins with increased sales volume.

All of the Company's stores have sufficient "back-room" warehousing space to meet day to day restocking needs. In addition, the Company maintains various food distribution centers which, at September 27, 1980, aggregated approximately 1,120,000 square feet. These distribution centers are located in Jacksonville and Miami, Florida, and in Baltimore, Maryland.

The Company also operates a drug store and various food manufacturing and processing facilities. These include facilities for baking, coffee roasting, soft drink bottling, the packaging of tea and tea bags, and the manufacture of powdered drink mixes, including iced tea mix and an artificial cream product. The Company's supermarket operation is a major customer for the products of these facilities. However, significant sales are also made to third parties.

Other Continuing Operations

The Company, through various subsidiaries (the "Footwear Operation"), presently distributes branded footwear to approximately 4,000 supermarkets and drugstores through a network of 25 franchised distribu-

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tors and through individual sales representatives. The Footwear Operation holds licenses in the United States to market footwear under the "Fruit of the Loom" trademark and children's footwear under "Looney Tunes" cartoon character trademarks. The "Fruit of the Loom" license presently expires on December 31, 1980, but the Company has exercised the first of three two-year options to renew the license beyond that date; and the "Looney Tunes" license expires June 30, 1981, the Company having the option to extend it for an additional two years. The Footwear Operation's 1980 wholesale sales were approximately $8,800,000.

The Company also presently operates nine retail shoe outlets in the eastern part of the United States. Retail sales of these stores in fiscal year 1980 aggregated approximately $1,500,000.

Competition

The Company's supermarkets generally are located in areas characterized by a high degree of competition among supermarket operators. Among its major competitors are The Great Atlantic and Pacific Tea Company, Winn-Dixie Stores, Inc., Publix Markets, The Grand Union Company, Colonial Stores, Inc., Safeway Stores, Inc. and Giant Food, Inc.

A significant competitive factor is the physical condition of Company stores as compared to those of competitors. In recent years the Company has lacked adequate cash and credit resources to support a full-scale program of store modernization and new store openings in its profitable market areas. In order for these areas to maintain and improve profitability, it is believed to be essential that the Company have sufficient working capital and access to sufficient financing to permit it to conduct a capital improvements program. See "Chapter XI Arrangement Proceedings - Significant Events Subsequent to Institution of Chapter XI Proceedings" with respect to the current Capital Improvements Program.

The Company engages from time to time in price promotional activities involving price reductions in its supermarket operations. Competitors of the Company also run promotional campaigns. A promotional campaign can have adverse effects on profitability depending on the size and financial resources of the competitor running it and its duration. Such a campaign currently is having a significant adverse impact on the Company's Baltimore operations.

The Company has begun to institute a new merchandising and marketing strategy based upon a price/value appeal and having the concept of "Every Day Low Prices" as its foundation. This strategy is designed to offer consumers the best overall value for their food dollars and convince them that they will achieve greater savings by purchasing all their food needs at a Company supermarket than shopping for specials at several different supermarkets.

The Company expects it will continue to face the traditional severe competition of the retail supermarket industry, which operates on a high volume, low profit margin basis. A particularly aggressive new form of competition now being encountered is limited-line, minimum-service merchandise operations that generally concentrate on staple consumer food items at lower than normal profit margins.

Employee Relations

At August 2, 1980, the Company employed approximately 11,000 persons and had contracts with various unions covering wages, hours of employment, and other conditons of employment of certain employees. The Company considers that its labor relations with its ongoing employees and unions are satisfactory.

The Company maintains pension plans for certain of its salaried and hourly-rated employees, and it contributes to various Taft-Hartley multi-employer pension plans, jointly maintained by industry and union, covering certain other hourly-rated employees. The Company engaged independent actuaries to review effects the closings and discontinued operations will have on the pension plans and the Company's liabilities thereunder. As to certain multi-employer plans in which the Company was a "substantial employer" and from

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which the Company withdrew as the result of store closings, the Company would have a contingent liability for its allocated share of such plans' unfunded vested liabilities if the plans were to terminate within five years of the Company's withdrawal. The actuaries have estimated such contingent liabilities at $856,000. Under prior provisions of the Employee Retirement Income Security Act of 1976 ("ERISA"), which the Company believes applicable, the Company may have to post a bond of up to 150% of such contingent liability with the Pension Benefit Guaranty Corporation ("PBGC"). The amount of such bond is currently being negotiated. In addition, the Trustees of two such multi-employer plans have claims in the Chapter XI proceedings alleging common law and contractual liabilities of the Company for vested unfunded benefits, which such Trustees allege to aggregate $3,702,000. The Company has moved to expunge both claims. One such claimant having a claim of $700,000 has offered to withdraw its claim; the other claim, amounting to $2,502,000, is in early stages of discovery proceedings.

The Company was also a "substantial employer" with respect to two multi-employer pension plans covering employees in its closed Philadelphia area stores and five stores in the Wilmington, Delaware area which have remained open. The Company does not believe it has "withdrawn" from such plans under the provisions of ERISA. The actuaries, using the available but incomplete data, reported that if the Company were held to have withdrawn from such plans, the potential liability of the Company in the event of future termination of the plans within five years of the date the Company were deemed to have withdrawn, would be approximately $14,000,000, for which the Company could be required by PBGC to post 150% bond. The PBGC has not requested the Company to post bonds as to such plans. The Trustees of such plans, however, have filed claims in the Chapter XI Proceedings (which are not based upon any specified provisions of ERISA), totaling approximately $50,000,000, in general purporting to represent the Company's proportionate share of plan liabilities. In response to the Company's motion to expunge such claims, in September 1980, the Bankruptcy Court expunged one of such claims amounting to approximately $32,000,000; however, the claimant has filed a notice of appeal with the Federal District Court, Southern District of New York. The Company has also filed objections, alleging insufficiency as a matter of law, to a claim for unfunded benefits in the amount of $5.5 million, filed by a third multi-employer plan covering employees in its Philadelphia area, to which the Company continues to make contributions on a substantially reduced basis. The Company was not a "substantial employer" with respect to such plan and would therefore not have the obligation to bond potential plan termination liability under ERISA.

Recent legislation with respect to multi-employer pension plans provides that a partially withdrawing employer incurs liability for continued contributions. Such legislation does not have any retroactive effect and is, therefore, not expected to have any adverse effect upon the Company with respect to past employment terminations, but could result in imposition of substantial liabilities if significant portions of its ongoing operations were closed in the future.

TERMINATED OR DISCONTINUED OPERATIONS

As a result of the Chapter XI Proceedings and pursuant to a strategy of continuing to operate only in those areas, both business and geographic, where it has historically experienced profitability, the Company terminated its supermarket operations in the Pennsylvania, New Jersey, New York, Connecticut, and Tampa, Florida areas; discontinued its J.M. Fields discount department store operations; and closed its meat processing and certain produce operations. The Company is in the process of disposing of its interests in properties related to those operations and in any other properties and assets not essential to its ongoing business. Approximately $80,000,000 of proceeds from the dispositions have been used to fund a portion of the Company's Capital Improvements Program, pay certain secured indebtedness and other priority payments, and the remaining proceeds will be applied to the Company's obligations under the proposed Plan of Arrangement. As of August 2, 1980, the Company has realized from such dispositions aggregate proceeds, net of related mortgages, costs and expenses, of approximately $170,000,000. Through September 27, 1980 an additional $4,000,000 had been realized. Further amounts to be realized from the disposition program, net of sale expenses, carrying costs, related indebtedness and other costs, is uncertain since the timing of and

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amounts to be realized from future sales are subject to general economic conditions and other factors not within the control of the Company. However, the Company currently estimates net additional proceeds at approximately $25,000,000, which amount is substantially in excess of the value of net assets held for disposition reflected on the Company's consolidated balance sheet as of August 2, 1980 because for financial reporting purposes certain anticipated gains have not been recognized.

Termination of New York, Connecticut, Pennsylvania, New Jersey and Tampa, Florida Supermarket Operations

On November 1, 1978, the Court authorized the Company to close 89 supermarkets located in New York and Connecticut. (See Report on Form 8-K dated November 27, 1978). On January 26, 1979, the Court authorized the Company to close its supermarket operations in the Pennsylvania, New Jersey and Tampa, Florida areas, comprising a total of 121 stores. (See Report on Form 8-K, dated February 10, 1979).

Discontinuation of J.M. Fields Discount Department Store Operations

On April 17, 1979, the Court authorized the Company to discontinue its J.M. Fields discount department store operations, consisting of 79 department stores located in the eastern United States. These stores had operated at a substantial loss during prior years. Prior to the Court's authorization for discontinuation, the Company explored alternative means to accomplish this disposition including sale of the entire operation as a going business. Efforts to find a qualified buyer for the entire division as an operating unit were unsuccessful and, therefore, the Company, with Court approval, ceased operation of the stores and entered into arrangements for the liquidation of the stores' inventories and sales of the related real estate interests and other assets.

Other Closed Operations

In addition, since commencement of the Chapter XI Proceedings, the Company has closed its cattle feedlot and meat processing operations and its northern produce operations. The various other ancillary activities of the Company have been reviewed to determine whether the projected results of their operations over the foreseeable future warrant their retention. This review considered, among other factors, the Company's investment therein, the estimated realizable proceeds upon any disposition, the Company's overall managerial and systems capabilities and resources and the impact of disposition upon the Plan and the Company's ability to fulfill its obligations thereunder.

Dispositions of Assets

The Company has been engaged in the process of liquidating and disposing of the real estate properties and other assets related to the above mentioned closed or discontinued operations as well as its leasehold or residual interests in approximately 200 additional properties unrelated to the Company's ongoing operations. These properties included other vacant discount department store and supermarket locations, warehouse facilities, manufacturing plants, the former headquarters building in Philadelphia and unimproved real estate located along the eastern seaboard of the United States and in California and the Bahamas.

With Court approval, the Company retained the services of two real estate brokerage firms, Stone-East Associates, Inc. and Eastdil Realty, Inc., to assist in the disposition of its real estate interests and related fixtures and equipment. Also, with Court approval, professional liquidators were retained to handle the liquidation of the J.M. Fields and certain closed supermarkets' inventories.

As of August 30, 1980, the Company had sold 395 properties, in which it held either a leasehold or residual interest. Also, as of that date the Company had contracts for the sale of 34 additional real estate properties in which it held a leasehold or residual interest calling for gross proceeds aggregating approximately $12,000,000 over and above mortgages to be paid on closing. In additon, 80 leases had been terminated or disaffirmed by the Company as of August 30, 1980. (Under Sections 313(1) and 353 of the Bankruptcy Act the Company is permitted to disaffirm leases and thereby reduce its potential liability with

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respect to the remaining terms therof to an amount not exceeding the rent, without acceleration, reserved by each lease for the three years next succeeding the date of the surrender of the premises to the landlord or the date of the reentry by the landlord, whichever first occurs, whether before or after October 2, 1978, plus unpaid accrued rent up to the date of surrender or reentry. Any liabilities arising from disaffirmance would be Class I claims within the Plan.) The carrying amounts of unsold properties, other assets and deferred charges covered by the disposition program have been reduced to estimated net realizable amounts.

Application of Proceeds of Asset Dispositions

Net proceeds derived by the Company from sales or other dispositions of its assets or business, as described above, have been generally required by the Court and informal agreement with the Official Creditors' Committees to be segregated and set aside for payment to creditors and other specific purposes, rather than for general corporate purposes.

In November, 1978, the Court ordered that the first $25,000,000 realized from the dispositions be set aside in a special trust fund, to assure payment of obligations of the Company incurred subsequent to October 2, 1978, to persons extending trade or other credit in the event these obligations are not paid in the normal course of business, which funds will become available to effectuate the Plan of Arrangement with creditors. The Court authorized the Company to utilize disposition proceeds to pay without prejudice outstanding secured indebtedness of $28,000,000 plus interest on May 25, 1979 and approximately $11,600,000 on October 29, 1979 and $2,000,000 in July, 1980. (See Item 6- "Increases and Decreases in Outstanding Securities and Indebtedness.") In addition, on October 4, 1979, the Court and Creditors' Committees authorized the Company to utilize $25,000,000 from sale proceeds in connection with its Capital Improvements Program.

The balance of disposition proceeds is required to be paid to creditors under the terms of the proposed Plan. (See "Proposed Plan of Arrangement".) However, approximately $45,000,000 of said proceeds were derived from sales of properties owned by subsidiaries not parties to the Chapter XI Proceedings and are subject to claims of interest of creditors of those subsidiaries. These claims have not yet been resolved. Amounts in excess of the settlement of such claims will be used to pay creditors under the Plan.

Washington Square Life Insurance Company

The Company owns Washington Square Life Insurance Company, a legal reserve life insurance carrier chartered in the Commonwealth of Pennsylvania and authorized to do business in eleven states. Washington Square sells a full line of life insurance policies through a staff of licensed agents both to the Company's employees and unaffiliated persons. In the most recent fiscal year approximately 73% of Washington Square's annual premium income was derived from employees of the Company and its subsidiaries. The closing of 234 supermarkets and the discontinuance of the J.M. Fields department store operation during fiscal 1979 had an adverse effect on Washington Square. The significant amount of policy cancellations experienced from employee terminations resulted in accelerated amortization of a substantial amount of deferred policy acquisition costs. During the 1980 fiscal year, Washington Square realized a profit of $159,000 as compared to a loss of $201,000 for 1979.

The Company intends to sell Washington Square when a price reflecting its value to the Company can be obtained.

Liquidation of Investment in Amterre Development Inc

The Company through a wholly-owned subsidiary, F.F. Financial Corporation ("FF Financial"), which has also filed a petition under Chapter XI, is the record owner and has certain voting rights, described below, as to approximately 40% (3,333,333 shares) of the outstanding common stock, and all of the outstanding

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preferred stock, of Amterre Development Inc ("Amterre"), a publicly held developer of shopping centers and other real properties located throughout the eastern United States. FF Financial pledged its Amterre shares to a group of lender banks ("Pledgee Banks") in connection with the $28 million secured loan advanced to the Company in August, 1978. The loan was paid in full on May 25, 1979, but pledged Amterre shares have not yet been released by the Pledgee Banks.

To date Amterre has not paid any dividends on its common stock. In addition, no dividends have been declared or paid with respect to Amterre's preferred stock for the five quarters ending September 30, 1979 through September 30, 1980. If dividends are not paid for six quarters, the Company would have the right to elect a majority of Amterre's Board of Directors. Amterre has publicly stated, however that it expects to pay sufficient preferred dividends so as not to be more than five quarters in arrears.

As a consequence of the Company's Chapter XI Proceedings, store closings and Amterre's anticipated liquidation, a number of claims and disputes arose among Food Fair, Amterre and their respective subsidiaries. Negotiations among the parties resulted in an agreement dated July 5, 1979, which agreement has been approved by the Court. The agreement provided for substantial change in the terms of the Company's leases with Amterre. In addition, Amterre's claims against Food Fair were settled by offsetting its claims as of May 31, 1979, other than for current rents and charges, virtually in full against amounts it owed to the Company, including prepayment of $864,000 of long-term notes relating to six shopping centers. On September 26, 1979, the Company received payment of the net balance of $650,000 plus interest that remained owing to it under the agreement.

On May 2, 1978, the Board of Directors of Amterre voted to recommend to Amterre's stockholders the adoption of a plan of liquidation and dissolution under Section 337 of the Internal Revenue Code (hereinafter referred to as the "Amterre Plan"). The Amterre Plan is intended to result in Amterre not incurring any federal income tax liability with respect to the proceeds from the disposition of its assets and may result in the payment by Amterre's stockholders, including the Company, of a single capital gains tax on the value of the cash and other assets distributed to them. The Amterre Plan requires the distribution to Amterre's stockholders, within 12 months following adoption of the Amterre Plan, of all of its net assets less any amounts required to be set aside in a reserve against contingent or unliquidated liabilities or claims. The Company has been advised that Amterre has sold a number of its properties and is seeking to sell for cash as many of its remaining assets and properties as possible. Stone-East Associates, Inc. and Eastdil Realty, Inc. have also been retained by Amterre to assist with the sales of its properties. Under the Amterre Plan any assets and properties not disposed of within the 12-month liquidation period will be spun off into a limited partnership whose principal objective will be the disposition of such assets and properties. Holders of Amterre common stock would receive limited partnership units on the basis of one unit for each share of common stock held. The Amterre Plan contemplates that a subsidiary of Food Fair will serve as one of the corporate general partners of the limited partnership. It also contemplates among other things, the redemption, at a stated redemption price of $100 per share, of all of the 20,000 shares of Amterre 6% Preferred Stock which are held by the Company.

The Amterre Plan was adopted by Amterre's stockholders at a meeting held on March 21, 1980. The Company has been advised that an initial distribution under the Amterre Plan should not be expected before December, 1980.

On November 21, 1978, a stockholder of Amterre filed suit against Amterre and Amterre's directors and the Company seeking, among other matters to enjoin Amterre's liquidation. Prior to the March 21, 1980 Amterre stockholders meeting, the trial court denied a motion for a preliminary injunction to enjoin the meeting. See Item 5-"Legal Proceedings."

The Company is presently a supermarket tenant in seven of Amterre's shopping centers, and in addition, it remains a lessee of three supermarket or department store locations at other Amterre shopping centers

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which it has subleased. The Company presently operates eight supermarkets on separate, free-standing premises owned by Amterre, and also remains a lessee at seven additional supermarket or department store locations which it has vacated, of which four have been subleased and three are vacant. The Company is offering for sale its interest in most of its vacant supermarket and department store locations, including those leased from Amterre and others. The Company had made an offer to acquire from Amterre seven of the free-standing premises presently occupied by the Company.

Until November 14, 1978, when five directors resigned from the Company's Board of Directors, a majority of the Board of Directors of Amterre were also directors of the Company. At the present time one company Director, Roger L. Galassini, is also a member of Amterre's Board of Directors.

RELATED PARTY AND OTHER INVESTIGATIONS

In August, 1978, as a result of allegations contained in the August 21, 1978 issue of Forbes magazine entitled "Is All Fair At Food Fair?" the Audit Committee, as then constituted, of the Board of Directors undertook an investigation and analysis of certain transactions between the Company and persons or entities affiliated with the Company's management. The Audit Committee retained special counsel and auditors to assist it. On October 4, 1978, each of the directors serving as members of the Audit Committee resigned for the stated reason that, given the Chapter XI filing, he would be unable to devote sufficient time to fulfill his duties as a director of the Company.

Subsequent to the formation of the Official Creditors' Committees, the investigation was reactivated, and with Court approval, Price Waterhouse & Co., an independent accounting firm, was retained to conduct it. With Bankruptcy Court approval, Price Waterhouse retained Pepper, Hamilton & Sheetz, Philadelphia, as special counsel in conneciton with the investigation.

On October 15, 1979, Price Waterhouse delivered copies of its report entitled "Report of Independent Accountants on Investigation of Related Party Transactions and Perquisites" to the Official Creditors' Committees, the Bankruptcy Court and the Company. (See Report on Form 8-K dated November 8, 1979, together with the copy of the 620-page Price Waterhouse report attached thereto as an exhibit, which is hereby incorporated herein by reference). In addition, copies of the report were delivered to the Securities and Exchange Commission and a Federal grand jury sitting in the Eastern District of Pennsylvania pursuant to subpoenas previously issued to Price Waterhouse.

The report states that as a result of an initial search phase, Price Waterhouse proceeded to investigate a total of 115 transactions or relationships where there appeared to have been dealings between the Company and related parties. These investigations resulted in further reducing the number of identified related party transactions or relationships to 55, each of which is separately described in the report. Many of the transactions or relationships described involved members of the family of Samuel Friedland, the founder of the Company, their relatives or entities controlled by them. The report advises that notwithstanding the disclosures made therein, it does not set forth and Price Waterhouse has "specifically not formed any conclusions with respect to the legality or propriety of the conduct of any person or entity."

On November 1, 1979, the Board of Directors authorized the Audit Committee, reconstituted in mid-1979 and composed entirely of non-management directors, to undertake an evaluation of the report and to determine what disposition the registrant should make of all matters involving related parties, perquisites and litigation concerning former management. The Audit Committee, with the advice and assistance of counsel, has evaluated that report and other information pertaining to related party matters. Upon the recommendation of the Audit Committee, the Company entered into a settlement encompassing most of the related party claims and litigation with respect thereto. (See Item 5 below.)

In January, 1979, the Securities and Exchange Commission issued an Order of Investigation for the purpose of examining various transactions between the Company and related or affiliated parties, and to

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examine the adequacy of the Company's financial reports and disclosures for a period of years prior to the filing of the Chapter XI Petition. On December 17, 1979, the Company was served with a subpoena from a Federal grand jury sitting in the Eastern District of Pennsylvania requesting internal audit documents. The Company does not know what action, if any, may be taken by either the Securities and Exchange Commission or the grand jury. (See Notes 5 and 6 of notes to consolidated financial statements.)

PACA License -- Requirements for Relicensing

Food Fair's operations require it and certain subsidiaries to be licensed under the Perishable Agricultural Commodities Act ("PACA"), administered by the U.S. Department of Agriculture. In November, 1979, the Department advised the Company that it is investigating whether violations of PACA were committed by Food Fair as a result of nonpayment of obligations to certain produce suppliers for goods sold and delivered. In accordance with the policy of the Department; no action has been taken to terminate the present license, but representatives of the Department have indicated that such action would be taken following the termination of the Chapter XI proceedings. Under Section 4(e) of the PACA the issuance of a new license may be refused unless a bond "or other assurance satisfactory to the Secretary of Agriculture" is provided to the Department of Agriculture. In addition, under Section 8 of the PACA the Secretary of Agriculture may, among other remedies, suspend or revoke a license held by any entity which has been engaged in violations of the Act. The Company has been negotiating with the Department of Agriculture for a settlement which would allow it to continue as a business licensed under the PACA after conclusion of the Chapter XI Proceedings. Based upon discussions with representatives of the Department, the Company believes that renewal of the license can be obtained upon the condition that the Company (i) not have violated PACA during the pendency of the Chapter XI Proceedings and (ii) post a bond in the initial face amount of $3,000,000 for a five year term, subject to increase based upon future growth in the dollar volume of PACA covered products purchased by the Company. The Company is currently considering this alternative.

DELISTING OF SECURITIES

As a result of the Company's filing a petition under Chapter XI, its common stock was delisted on the New York Stock Exchange and suspended from trading on the Philadelphia and Pacific Stock Exchanges, and its 4% Subordinated Debentures and 8 3/8% Sinking Fund Debentures were delisted from the New York Stock Exchange and the 4% Subordinated Debentures suspended from trading on the Philadelphia Stock Exchange.

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Item 2. *Summary of Consolidated Operations*

The following summary of consolidated operations of the Company and its consolidated subsidiaries is not covered by the independent certified public accountants' report. For the years ended August 2, 1980 and July 28, 1979 the independent certified public accountants' report, which is included elsewhere herein, disclaims an opinion on the consolidated financial statements. The summary should be read in conjunction with the consolidated financial statements and related notes. (Numbered notes are included in the notes to consolidated financial statements for the years ended August 2, 1980 and July 28, 1979.)

	53 Weeks Ended August 2, 1980	52 WEEKS ENDED July 28, 1979	Restated July 29, 1978	Restated July 30, 1977	July 31, 1976
	(In thousands except per share amounts)				
Sales	$1,124,067	$1,487,270	$2,414,665	$2,145,125	$2,193,528
Gross profit	230,360	247,439	436,023	410,896	405,043
Expenses and other income, net	223,366	321,684	440,445	381,731	373,686
Interest expense, net	4,469	16,506	39,065	14,908	14,964
Income (loss) before unusual items and income taxes	2,525	(90,751)	(43,487)	14,257	16,393
Unusual items (Notes b and d)	10,700	(55,787)			
Income tax (expenses) benefit (Note 13)	(2,043)		8,776	757	(3,284)
Income (loss) from continuing operations	11,182	(146,538)	(34,711)	15,014	13,109
Income (loss) from discontinued operations (Notes d, 2, and 3)	2,550	(58,978)	(19,840)	(11,768)	(9,281)
Income (loss) before extraordinary item	13,732	(205,516)	(54,551)	3,246	3,828
Extraordinary item (Note 13)	8,841				
Cumulative effect of accounting changes (Notes e, f, and 15)		(5,563)	(37,672)	4,175	
Net income (loss)	22,573	(211,079)	(92,223)	7,421	3,828
Preferred dividend requirement	68	68	71	73	82
Net income (loss) applicable to common stock	$ 22,505	($ 211,147)	($ 92,294)	$ 7,348	$ 3,746
Per share of common stock (Note h):					
Continuing operations, including unusual items and deferred tax and tax refund benefits	$ 1.51	($ 19.92)	($ 4.72)	$ 2.03	$ 1.77
Discontinued operations	.35	(8.02)	(2.70)	(1.60)	(1.26)
Extraordinary item	1.20				
Cumulative effect of accounting changes		(.76)	(5.12)	.57	
Net income (loss)	$ 3.06	($ 28.70)	($ 12.54)	$ 1.00	$ .51
Pro-forma amount of income (loss) assuming accounting changes applied retroactively:					
Continuing operations		($ 146,538)	($ 35,295)	$ 14,736	
Discontinued operations		(58,978)	(19,840)	(11,768)	
Cumulative effect of accounting changes				(2,338)	
Net income (loss)		($ 205,516)	($ 55,135)	$ 630	
Per share of common stock:					
Continuing operations		($ 19.92)	($ 4.81)	$ 2.00	
Discontinued operations		(8.02)	(2.70)	(1.60)	
Cumulative effect of accounting changes				(.32)	
Net income (loss)		($ 27.94)	($ 7.51)	$ .08	
Weighted average of common shares outstanding during the year	7,358	7,358	7,358	7,364	7,361
Cash dividends per share:					
Common	None	None	$ .20	$ .20	$ .20
Preferred	None	$ 1.05	$ 4.20	$ 4.20	$ 4.20

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FOOD FAIR, INC.

(DEBTOR IN POSSESSION)

NOTES TO SUMMARY OF CONSOLIDATED OPERATIONS

(not covered by accountants' report)

(a) The Chapter XI Proceedings and related subsequent events and the basis of preparation of the Company's financial statements are more fully described in Note 1 of notes to consolidated financial statements.

(b) As stated in Note 2 of notes to consolidated financial statements, the 1979 Summary of Operations contains certain charges to operations which appear as if they do or may pertain in part to operations of prior years.

(c) For 1980, income per share from continuing operations includes $.74 from unusual items, $.60 from deferred tax and tax refund benefits; and $.17 from operations. For 1979, loss per share from continuing operations includes $7.58 from unusual items; $3.24 from provision for creditors' claims; and $9.10 from operations.

(d) In 1979, the Company discontinued its J.M. Fields discount department store operations and closed approximately 50% of its supermarkets, all of its meat processing and certain of its produce operations. (See Note 3 of notes to consolidated financial statements).

(e) Effective in August, 1978, the Company changed its method of accounting for leases to comply with the provisions of "Statement of Financial Accounting Standards No. 13." Years ending prior to July 29, 1978 have not been restated retroactively due to incomplete information with respect to leases for those years.

(f) In the fourth quarter of 1977, the Company changed its methods of accounting as follows: (1) inclusion of certain warehousing costs in the determination of supermarket inventories; (2) the amortization of payroll tax expense; and (3) the computation of deferred income taxes on the gross change method. In the fourth quarter of 1979, the Company again changed its accounting methods by excluding certain warehousing costs in determination of supermarket inventories and by discontinuing the deferring of payroll tax expense.

(g) During the fifty-two weeks ended July 30, 1977, the Company acquired the net assets of 17 supermarkets and the capital stock of a company which operated 43 supermarkets. Both acquisitons were accounted for as purchases; therefore, operations of the acquired supermarkets are included in the Consolidated Summary of Operations from the date of purchase. Pro-forma combined sales of the Company and the acquired business for 1977 approximate $2,600,000,000.

(h) Per share of common stock is stated after preferred stock dividends and is based on the weighted average number of shares outstanding during each year.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
OF
SUMMARY OF CONSOLIDATED OPERATIONS

Due to the circumstances necessitating the filing of Chapter XI petitions on October 2, 1978, management's discussion and analysis of the foregoing Summary of Consolidated Operations should be read in conjunction with "Chapter XI Arrangement Proceedings," "Business of Food Fair," and "Financial Statements and Schedules."

1980 compared to 1979

Management believes that comparisons between 1980 and 1979 results of operations have been significantly impacted by the Company's filing of petitions under Chapter XI of the Bankruptcy Act during 1979 and various actions taken by it as a result thereof or in connection therewith, including major changes in Company operations and assets.

Sales for 1980 were $1.12 billion compared with $1.49 billion in 1979, a decline of 24.4%. This decrease was primarily the result of closing 222 supermarkets during 1979 in the New York, Philadelphia, Harrisburg and Tampa regions and closing the meat operations and offset partially by inflationary increases in product prices and the impact of the 53rd week in 1980. Excluding the 1979 sales of closed supermarket operations, sales in 1980 increased 10.2%.

Cost of sales as a percentage of sales was 79.6% in 1980 compared with 81.8% in 1979. This improvement was due largely to improvements in the Company's ability to maintain sufficient stock and to make advance purchases to take advantage of manufacturer's discounts.

Operating and administrative expenses were 20.2% compared with 22.0% in the prior year. This reduction of percentage of expenses to sales was due to a reduction in overhead costs and the effect of the 53rd week on sales and expenses.

In 1979, several major items were classified as unusual due to their significance to the results of that year. These items amounted to a net charge of $55.8 million and were primarily bankruptcy administration costs; provision for self-insurance; and allowance for disposal of properties and termination expenses. In 1980, these same items together with other items which are also significant to the understanding of the 1980 operating results amounted to a net credit of $10.7 million. The additional unusual items in 1980 included interest on tax refund; elimination of excess intercompany balances; sugar antitrust litigation recovery; refinement of inventory methods; and a reduction in the allowance for estimated losses on net assets of closed supermarket operations held for disposition. (See Note 2.3 of notes to consolidated financial statements). Due to the unusual nature of these items, management believes that comparisons of these amounts are not meaningful.

Net interest expense was $4.5 million in 1980 compared with $16.5 million the prior year as interest on substantially all unsecured short and long-term debt ceased to accrue as a result of the Chapter XI filing in 1979. Accordingly, operations in 1980 have not been charged with the interest expense on these obligations.

In 1980, an extraordinary item of $8.8 million was recognized resulting from the utilization of net operating loss carryforwards as a reduction of income tax expense.

Net income in 1980 was $22.5 million compared with a loss of $211.1 million in 1979. The loss in 1979 included $63.6 million for the results of operations of supermarkets closed during 1979; $59.0 million from discontinued J.M. Fields operations; $55.8 million for unusual items; and, $23.8 million as a provision for creditors' claims. Except for unusual charges with respect to self-insurance, charges to income of this nature which contributed significantly to the loss in 1979 did not affect operations in 1980.

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1979 compared to 1978

Management believes that comparisons between 1979 and 1978 results of operations have been significantly impacted by the Company's filing of petitions under Chapter XI of the Bankruptcy Act on October 2, 1978, and various actions taken by it as a result thereof or in connection therewith. During this period and pursuant to a strategy for continuing to operate only in those areas, both business and geographic, where it had been historically profitable, the Company terminated its supermarket operations in the Pennsylvania, New Jersey, New York, Connecticut, and Tampa, Florida areas; discontinued its J.M. Fields discount department store operations; and closed its meat processing and certain produce operations. The Company has substantially completed disposition of its interest in properties related to those operations and in any other properties and assets not essential to its ongoing business.

As a result of the filing of the aforementioned Chapter XI petitions, interest expense ceased to accrue with respect to substantially all unsecured indebtedness and interest expense decreased from $39.0 million in fiscal 1978 to $16.5 million in 1979.

Unusual items for 1979 consist of disposal of properties and termination expenses, including net loss from closed supermarket operations after February 10, 1979 of approximately $35.6 million; adjustment for self-insurance, a significant portion of which applies to prior years, of approximately $14.5 million; and bankruptcy administration costs, less interest income on restricted cash, of approximately $5.6 million. The self-insurance provision is presented as an unusual item because an adjustment is required for claims incurred in prior years, and present management believes that reasonable estimates could have been made for such claims in the years in which they were incurred and appropriate claims reserves recorded.

In 1979, the Company changed certain methods of accounting in order to be consistent with industry practices by excluding warehouse costs in the determination of supermarket inventories and discontinuing the amortization of payroll taxes. In 1979, the Company retroactively changed its method of accounting for leases to comply with the provisions of Statement of Financial Accounting Standards No. 13.

The net loss increased to approximately $211.1 million, due principally to the loss from J.M. Fields of approximately $59.0 million, continuing supermarket operations (including loss from closed supermarkets and related operations) of approximately $63.6 million, from the unusual items referred to above of approximately $55.6 million and the provision for creditors' claims included in expenses and other income of approximately $23.8 million.

Item 3. ***Properties***

Pursuant to the Company's decision to relocate its executive offices closer to its principal continuing operations, the Company transferred its executive offices to facilities located at 6500 North Andrews Avenue, Fort Lauderdale, Florida 33309, effective December 3, 1979. The new office facilities are subject to a lease dated July 20, 1979, having an initial term of 6 years. The lease covers approximately 35,000 square feet of office space and provides for four 6-year renewal options.

As of August 2, 1980, the Company leased 167 of its ongoing supermarkets under agreements with third parties, which provided, in typical cases, for the construction of the retail facility by the landlord to the Company's specifications, and for a subsequent lease thereof to the Company for periods of fifteen years or more (with renewal options) at negotiated rentals. Lease agreements provided in many cases for the payment by the Company of all or a portion of certain expenses, such as taxes and maintenance costs, and the payment of additional rentals based upon a percentage of sales from the premises.

The balance of the Company's ongoing supermarkets were constructed by the Company (sometimes as part of a "strip" shopping center) and, as to a total of 35 the Company owned the fee interest.

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As indicated in Item 1-"Business Competition", the Company is subject to intense competition at all of its supermarket locations. Many of the Company's supermarkets compete with supermarkets that are newer or have been more recently modernized than the Company's stores, a factor which operates to the disadvantage of the Company. See Item 1, "Chapter XI Proceedings-Significant Events Subsequent to Institiution of Chapter XI Proceedings" with respect to the Company's current Capital Improvements Program.

The Company's soft drink bottling plant and several of its auxiliary warehouses are owned in fee. The remainder of the Company's warehouse space and food processing facilities are occupied under long-term leases with renewal options, and in some instances, purchase options.

The Company deems its warehousing facilities adequate for its normal needs, with sufficient capacity to meet its reasonable foreseeable requirements. Frozen food warehousing requirements are provided through independent suppliers. From time to time the Company supplements its own facilities to provide storage for special deals or seasonal merchandise. Machinery and equipment at its food processing facilities are deemed adequate for present and reasonable foreseeable requirements.

Item 4. *Parents and Subsidiaries*

(a) Parents

Based upon the most recent information contained in filings by such persons with the Securities and Exchange Commission, Samuel Friedland was the beneficial owner of 1,239,907 shares (16.9%) of the Company's Common Stock. As to 114,965 (1.6%) of said shares, he held shared voting and dispositive power with his sons, Jack and Harold Friedland, and as to 800,000 of said shares (10.9%) owned by others, he was the sole voting trustee. Samuel Friedland may be deemed the indirect beneficial owner of an additonal 247,063 shares of the Company's Common Stock (3.4%) held by Hasam Realty Corp. ("Hasam"). Hasam also holds the aforesaid 800,000 shares as pledgee. The Company has been advised that, as of August 4, 1980, Samuel Friedland (i) was the Chief Executive Officer of Hasam, and his sons, Jack and Harold Friedland, were officers of Hasam; (ii) owned directly 51.3% of Hasam's voting stock; and, (iii) held sole or shared voting and dispositive power as fiduciary as to an additional 28% of Hasam's voting stock. Harold and Jack Friedland have advised the Company that each may also be deemed the indirect beneficial owners of Hasam's shares of Food Fair Common Stock. Jack Friedland individually has sole voting and dispositive power as to 57,511 shares of Food Fair Common Stock and shares voting and dispositive power with Harold Friedland as to 40,000 additional shares of Food Fair Common Stock.

Any determination as to whether Samuel Friedland presently is a "parent" of the Company has been affected by the following: (i) the resignations on November 14, 1978 of Samuel and Jack Friedland and Louis Stein from all positions with Food Fair, (ii) the current status of Food Fair as a debtor in possession under Chapter XI and its consequent supervision by the Court and the Official Creditors' Committees, and (iii) the appointment of Grant C. Gentry, who is unaffiliated with Samuel Friedland, as Chairman of the Board, President and Chief Executive Officer of the Company, and the appointments of other unaffiliated senior executive officers and directors. The proposed Plan of Arrangement provides for the issuance of a substantial number of shares of preferred and common stock having full voting rights. This action would result in a significant reduction in the percentage of Company voting shares held by members of the Friedland family to less than 10% of the total, but increasing as such preferred stock is retired under the terms of the Plan. (See Item 1-"Business-Proposed Plan of Arrangement").

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(b) Subsidiaries

Each of the corporations named below is a subsidiary of Food Fair. All such subsidiaries are consolidated with Food Fair for financial reporting purposes, except its wholly-owned life insurance company.

Parent	State of Incorporation
Food Fair, Inc.	Pennsylvania
Name of Subsidiary (Wholly-Owned)	
Realmart, Inc.	Delaware
Newcorp Supermarkets, Inc.	Pennsylvania
Tulip Parking Corporation	Pennsylvania
J.M. Fields, Inc.	Florida
Fixtures and Equipment Leasing Co., Inc.	New Jersey
Ideal Shoe Company	Pennsylvania
Maryland Milk Company	Maryland
Sel-Lect Kent Corporation	Pennsylvania
Sunshine Milk Company, Inc.	Florida
Mark Distribution Corporation	Florida
Washington Square Life Insurance Co. *	Pennsylvania
Herco, Inc.	Delaware
Greys Poultry, Ltd.	Bahama Islands
Twin Packing Co. of Florida	Florida
Golden Banana, Inc.	Florida
El Dorado Sales, Inc.	Arizona
Idealco, Inc.	New York
Supermarket Display Corp.	Delaware
B.I.P. Services, Inc.	Pennsylvania
Footwear Services, Inc.	New Jersey
Hills Supermarkets, Inc.	Delaware
Trojan Transportation, Inc.	Pennsylvania
F.F. Financial Corporation	Nevada
Food Fair Anne Arundel, Inc.	Maryland
Food Fair West Baltimore, Inc.	Maryland
Pantry Pride #3 Salisbury, Inc.	Maryland
F.F. Realty, Inc.	Delaware

* Financial statements not consolidated

Monarch Investment Co., Ltd., an 80% owned subsidiary, incorporated in Bahama Islands, is consolidated in the financial statements.

The names of certain other subsidiaries (including those in which the Company owns 50% or more of issued and outstanding common stock) have been omitted because, considered in the aggregate as a single subsidiary, they would not constitute a significant subsidiary.

Item 5. *Legal Proceedings*

As a result of the filing by the Company and certain subsidiaries of petitions for arrangement under Chapter XI, or as a result of non-payment of various obligations, or both, the Company and various of its subsidiaries are or may be in default under numerous loan agreements, indentures, promissory notes,

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guarantees, leases of real and personal property, security agreements, mortgages, and other contractual arrangements, including arrangements with labor unions relating to health and welfare contributions, severance pay and pension contributions. The filing of the Chapter XI petitions gave rise to an automatic stay, under Bankruptcy Rule 11-44, of all actions against the filing entities, whether arising out of the foregoing matters or otherwise.

Liabilities, if any, of the Company arising from pending litigation described in this Item 5 could survive Confirmation and not be affected by the Plan of Arrangement.

(a) The following lawsuits described in the Form 10-K annual report for the fiscal year ended July 28, 1979 have been dismissed under the terms of a settlement:

Harry Lewis v. Filigree Foods, Inc., et al (U.S.D.C.E.D. Pa.)
Alton E. Gross v. *Harold Friedland*, et al (U.S.D.C.S.D.N.Y.)
Eleanor Bader and Irving Bader v. *Food Fair, Inc.* et al (U.S.D.C.S.D. N.Y.)
Mary M. Stein, Custodian v. *Jack M. Friedland*, et al (U.S.D.C.E.D. Pa.)
William Elster v. *Samuel Friedland*, et al (U.S.D.C.S.D. N.Y.)
Steven Goldman v. Jack M. Friedland, et al (U.S.D.C.E.D. Pa.)

Many of the substantive allegations of such lawsuits were also the subject of an investigation conducted by Price Waterhouse & Co. on behalf of the Official Creditors' Committees, and continue to be the subject of investigations conducted by the Securities and Exchange Commission and by a Federal grand jury sitting in the Eastern District of Pennsylvania. (See Item 1-"Business-RELATED PARTY AND OTHER INVESTI-GATIONS.")

Under the terms of the settlement of the cases listed above and of other possible related claims against its former officers and directors, defendants other than the Company have deposited $2,500,000 for distribution, after an allowance for legal fees and expenses for the plaintiffs, to the purchasers of Food Fair securities from October 25, 1974 through October 2, 1978. Eight hundred thousand dollars of that payment was made by other defendants on behalf of the Company in exchange for the agreement of the Company to obtain dismissal of the two derivative actions and to release its claims against former management and related entities. The Company will make no payment in settlement of the litigation, except for reimbursement of derivative action plaintiffs' attorneys' fees in the amount of $108,000. The Company's participation in the settlements was approved by the Bankruptcy Court on August 12, 1980 and the settlements were approved, after a hearing, by the United States District Court for the Eastern District of Pennsylvania on September 30, 1980.

(b) On November 21, 1978, a stockholder of Amterre Development Inc ("Amterre") filed a suit against Food Fair, Amterre, and Amterre's directors, in which it is alleged that Amterre was injured because of various sale and lease transactions with Food Fair. This suit, entitled *David Harrow* v. *Food Fair, Inc., et al*, has been transferred from the United States District Court for the Southern District of New York to the United States District Court for the Eastern District of Pennsylvania. The present complaint alleges that Amterre breached its duty to the common stockholders of Amterre by failing to pay common stock dividends while periodically paying dividends on the 6% Preferred Stock owned by Food Fair and alleges that various breaches of fiduciary duty and acts of corporate mismanagement were not disclosed in Amterre proxy statements and in other public filings. An injunction is being sought as to the publicly announced liquidation of Amterre on the grounds that such liquidation will be solely to the benefit of Food Fair, and that Amterre public stockholders will receive nothing in the liquidation. The trial court denied the plaintiff's motion for a preliminary injunction prior to the Amterre stockholders meeting on March 21, 1980, where the plan of liquidation was approved. The Company has been advised that management of Amterre is proceeding with the liquidation of Amterre, in the absence of a contrary order of the court.

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(c) On December 20, 1978, the New York Department of Taxation and Finance issued a "Notice of Determination and Demand For Payment of Sales and Use Taxes Due" (the "Food Fair Notice") to the Company for the period beginning with the quarter ended August 31, 1977. The Food Fair Notice assessed a deficiency of $3,676,512 in New York sales and use tax for the period, plus interest in the amount of $1,692,919.

On December 28, 1978, the New York Department of Taxation and Finance issued a similar notice to J.M. Fields, Inc. ("Fields"), a wholly owned subsidiary of the company, (the "Fields Notice") for the period beginning with the quarter ended February 28, 1973 through and including the quarter ended February 28, 1978. The Fields Notice assessed a deficiency of $874,006 in New York sales and use tax for this period, plus interest in the amount of $258,623.

On April 21, 1980 the Company reached a settlement (subsequently approved by the Court) pursuant to which the Company paid an aggregate of approximately $3,011,000 in full settlement of the Food Fair and Fields Notices.

(d) The Company, together with numerous other retail food companies and others, has been named as a defendant in multiple civil actions brought in various United States District Courts by certain cattle producers and feeders alleging violations of the antitrust laws in connection with the purchase and resale of beef. The cases, most of which have been or are anticipated to be consolidated for pretrial purposes in the United States District Court for the Northern District of Texas, seek damages in an unspecified amount and an injunction against further antitrust violations as alleged. Reference is made to Item 3 of the Company's reports on Form 8-K for January, 1976 and August, 1976, for a description of these cases. Management believes that no basis exists for the allegation made against the company and, after consultation with counsel, is of the opinion that these actions will not have a material adverse effect on the financial condition of the Company. A dismissal of the suit on procedural grounds in October, 1977 by the United States District Court in Texas was reversed in August, 1979 by the Fifth Circuit Court of Appeals. The Fifth Circuit's opinion does not address, and does not dispose of, the merits of these cases.

(e) The Company is also a defendant in a case entitled *Boccardo* v. *Safeway Stores, Inc.* pending in the California Superior Court, San Francisco County. This case which seeks unspecified actual damages and unspecified punitive damages for an alleged conspriacy by supermarket chains, including the Company, to depress the prices paid for beef, is brought under the California anti-trust laws. The case was previously dismissed by the Court and such dismissal is being appealed by the plaintiffs to the California Court of Appeals.

(f) *First National Professional Corporation ("FNPC")* v. *Food Fair, Inc., et al* (U.S.D.C. Md.) has been tentatively settled. The Company has agreed to contribute the sum of $125,000 to the settlement, subject to the approval of the Bankruptcy Court.

(g) There is pending in the U.S. District Court, S.D., Cal., a suit entitled *Stonewall Insurance Company* vs. *Food Fair Stores, Inc. et al* for the declaration of invalidity of an insurance policy. The Company has filed a counterclaim for unreimbursed claims paid by the Company against the terminated insurance carrier. As of October 10, 1980 the amount of the claims paid by Food Fair but not reimbursed by Stonewall aggregated approximately $9,400,000. Although extensive discovery has been taken in the *Stonewall* case, substantial additional discovery remains to be taken. Counsel to the Company has advised that upon the basis of the discovery to date completed, plaintiff has not come forward with evidence sufficient to sustain its claim for rescission. Nevertheless, in view of the substantial factual discovery remaining to be taken, the Company is not in a position to predict the outcome of this case.

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Item 6. ***Increases and Decreases in Outstanding Securities and Indebtedness***

a. The Statement of Designation and Relative Rights and Preferences of the $4.20 Dividend Cumulative Preferrred Stock, Series of 1951, $15 par value, requires the Company to set aside in a sinking fund, semi-annually, the sum of $120,000 less the sum of $100 for each share of such Preferred Stock which the Company may purchase or redeem and credit against such sinking fund requirements. Because of the pendency of the Chapter XI proceedings, no shares were purchased or redeemed during the fiscal year ended August 2, 1980.

b. Pursuant to an agreement dated as of July 27, 1973, as amended on July 25, 1977, a bank advanced to the Company up to $15,000,000 in exchange for certain accounts receivable of the Company and certain of its subsidiaries. The funds advanced bore interest at 2% above the prime rate. On October 29, 1979, the Company paid, without prejudice and with the approval of the Bankruptcy Court, $11,653,294 of the principal amount outstanding. Subsequently on July 8, 1980, the Company entered into a stipulation, approved by the Bankruptcy Court, which provided for the payment of an additional $2,000,000 and the recognition of a general unsecrued claim in the amount of $1,653,294 (which sum includes accrued interest of $306,588) in full satisfaction and settlement of this debt.

Item 7. ***Changes in Securities and Changes in Security for Registered Securities***

The Company cannot pay dividends during the pendency of the Chapter XI Proceedings, and the proposed Plan of Arrangement with unsecured creditors would substantially restrict the payment of dividends during the lengthy period that payments to such creditors will be required under the Plan. (See Item 1-"Business-Proposed Plan of Arrangement")

Item 8. ***Defaults Upon Senior Securities***

As a result of the commencement of the Chapter XI proceedings the Company is in default with respect to the following indebtedness:

Mortgages and notes payable, secured	$ 3,884,000
Notes payable, banks	55,369,000
Notes payable, other	6,047,000
Subordinated debentures, 4%	10,350,000
Subordinated debentures, 8.5%	17,000,000
Sinking fund debentures, 8.375%	31,309,000
	$123,959,000

Also, at August 2, 1980, there were seven quarters of dividend arrearages on the Company's outstanding redeemable preferred stock which totalled $119,000.

The Company's proposed Plan of Arrangement provides for significant changes in the debt instruments and outstanding preferred stock and terms of payments. (See Item 1-"Business-Proposed Plan of Arrangement")

Item 9. ***Approximate Number of Equity Security Holders***

Set forth below is the approximated number of holders of record of each class of equity security of the Company outstanding at August 2, 1980.

Title of Class	Number of Record Holders
$4.20 Dividend Cumulative Preferred Stock, Series 1951, $15 par value	47
Common Stock, $1 par value	12,267

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Item 10. ***Submission of Matters to a Vote of Security Holders***

Not applicable.

Item 11. ***Indemnification of Directors and Officers***

Section 1410 of the Pennsylvania Corporation Law (15 Purdon's Pennsylvania Statutes Annotated Sec. 1410) provides in general that a business corporation may indemnify its officers and directors, who are parties to litigation by reason of their position, against expenses (including attorneys' fees), judgments fines and settlements amounts incurred in connection therewith if such persons acted in good faith. The statute also provides that a business corporation may indemnify its officers and directors for expenses (including attorneys' fees) incurred in defending or settling litigation brought against such persons by or in the right of the corporation if such person acted in good faith, except that no indemnification is permitted (with limited exceptions) where such persons have been adjudged liable for negligence or misconduct in the performance of their duties to the corporation. In any litigation of the nature discussed in the foregoing sentences, a corporation is required to indemnify an officer or director against expenses (including attorneys' fees) incurred by him if he is successful on the merits or otherwise in defense of such litigation. Indemnification payments to an officer or director authorized by the statute may be made only upon a determination made by: (i) the Board of Directors by a majority of disinterested directors, (ii) independent counsel or (iii) the shareholders, that indemnification is proper in the circumstances. Under certain circumstances, if approved in the manner set forth in the foregoing sentence, an officer or director may be advanced his expenses in defending an action if he undertakes to refund such advance unless it is ultimately determined that he is entitled to be indemnified. The provisions of this foregoing statute are not exclusive of other rights to which officers or directors seeking indemnification may be entitled under any by-law, agreement, vote of shareholders or disinterested directors.

On October 1, 1978, the Board of Directors adopted a resolution indemnifying officers and directors against expenses reasonably incurred in defending the case of *Lewis v. Filigree Foods, Inc. et al* (See Item 5-"Business-Legal Proceedings.") and a further resolution providing that such expenses, and expenses incurred in the defense of other litigation arising out of matters which are similar to the matters and causes alleged in this case, be paid to such officers and directors in advance, provided that the recipients execute undertakings to refund these advances unless it is ultimately determined that they are entitled to be indemnified. The effect of the Chapter XI Proceedings on the Company's obligations, if any, under this resolution, is unclear, as is the validity of the resolution, itself, given the circumstances of its adoption.

On March 13, 1979, the Court approved the adoption by the Board of Directors on February 23, 1979, of a new By-Law provision, which generally accords to officers and directors the rights to indemnification which are authorized by the above described Section 1410 of the Pennsylvania Corporation Law. The By-Law does not authorize, however, indemnification with respect to matters relating to financial participation by officers or directors or members of their families in transactions involving conflicts of interest, usurpation of corporate opportunities or other breaches of fiduciary responsibilities to the Company. The Order of the Court provides that such resolution is effective as of October 2, 1978, provided, however, that it applies only to officers and directors as of February 23, 1979 or thereafter. This By-Law may supersede the aforesaid Board resolution of October 1, 1978.

In addition, in October, 1980, the Company secured director and officer liability insurance generally providing coverage for the areas encompassed by the aforesaid By-Law provision.

Through September 27, 1980, the Company had made payments for legal fees totalling approximately $60,000 to attorneys, otherwise unaffiliated with the Company, who have represented several present or former employees that have been called upon to give information in connection with the various investigations into the Company's transactions with related or affiliated parties. No other indemnification payments or advances have been made by the Company to or on behalf of any present or former director or officer and

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no indemnification will be made without the approval of a majority of the disinterested members of the Board of Directors.

Item 12. ***Financial Statements, Exhibits Filed, and Reports on Form 8-K***

(a) 1. Financial Statements
See index to the annexed financial statements.

2. Exhibits
A. Proposed Amended Consolidated Plan of Arrangment, incorporated herein by reference to Report on Form 8-K dated August 8, 1980.

B. Report of Independent Accountants on Investigation of Related Party Transactions and Perquisites, incorporated herein by reference to Report on Form 8-K dated November 8, 1979.

C. Settlement Agreement with respect to various class action and derivative lawsuits, incorporated by reference to Report on Form 8-K dated August 8, 1980.

(b) Reports on Form 8-K filed during the last quarter of the fiscal year ended August 2, 1980.
1. Report on Form 8-K dated May 9, 1980 with respect to the Company's Plan of Arrangement.

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Item 13. ***Security Ownership of Certain Beneficial Owners and Management***

The following table sets forth, as of September 30, 1980, information concerning the beneficial ownership of the Company's common stock by (1) each director; (2) all directors and officers as a group (17 persons); and (3) each person who is known to the Company to be the beneficial owner of more than five percent of the Company's common stock:

Name of Beneficial Owner	Amount and Nature Of Beneficial Ownership: Sole Voting Power	Sole Investment Power	Shared Voting Power	Shared Investment Power	Acquirable Within 60 Days	Total Beneficial Ownership	Percent of Class
(a) *Directors*							
Joseph L. Castle	-0-	-0-	-0-	-0-	-0-	-0-	—
John M. Fox	-0-	-0-	-0-	-0-	-0-	-0-	—
Roger L. Galassini	-0-	-0-	-0-	-0-	5,000 (2)	5,000	*
Grant C. Gentry	-0-	-0-	-0-	-0-	200,000 (1)	200,000	2.6%
Frank N. James	1,311	1,311	-0-	-0-	7,500 (2)	8,811	.1%
Jewel S. Lafontant	-0-	-0-	-0-	-0-	-0-	-0-	—
James J. Needham	1,000	1,000	-0-	-0-	-0-	1,000	*
James J. Wachter	-0-	-0-	-0-	-0-	2,500 (2)	2,500	*
(b) *All Officers and Directors as a Group*	2,311	2,311	-0-	-0-	235,000	237,311	3.2%
(c) *Beneficial Owners* of Over 5% of Class							
Hasam Realty Corp. 8080 N.E. 5th Ave. Miami, Florida 33138	247,063 (3)	247,063 (3)	800,000 (3)	800,000 (3)	-0-	1,047,063 (3)	14.2%
Samuel Friedland Hollywood-By-The-Sea Hollywood, Florida	877,879 (3)	77,879 (3)	362,028 (3)	1,162,028 (3)	-0-	1,239,907 (3)	16.9% (3)
Jack Friedland 1020 North Lane Gladwyne, PA 19035	57,511 (3)	57,511	1,202,228 (3)	1,202,228 (3)	-0-	1,259,739 (3)	17.1% (3)
Harold Friedland 2 Bala Cynwyd Plaza Bala Cynwyd, PA 19004	-0- (3)	-0- (3)	1,202,228 (3)	1,202,228 (3)	-0-	1,202,228 (3)	16.3% (3)

* Less than .01%

(1) Mr. Gentry was granted options to purchase 200,000 shares at $2.00 per share in connection with his employment. (See Item 15(b) (1) (A).)

(2) Shares which could be purchased under the Company's non-qualified employee stock option plan, which has been approved by the Bankruptcy Court. (See Item 15(d) (2).)

(3) The Company has been informed that Hasam Realty Corp. ("Hasam"), Samuel Friedland, Jack Friedland and Harold Friedland beneficially own an aggregate of 1,337,618 shares or 18.2% of the total outstanding. Hasam is the direct owner of 247,063 shares and the pledgee of 800,000 shares which were sold in April, 1979, to four shareholders of Hasam, including Jack and Harold Friedland who each purchased 200,000 shares. The beneficial ownerships indicated for Jack and Harold Friedland include shares owned and held in pledge by Hasam. The 800,000 pledged shares are held in a voting trust of which Samuel Friedland is sole voting trustee. The beneficial ownership indicated for Samuel Friedland includes the aforesaid 247,063 (3.4%) shares held by Hasam, 800,000 shares (10.9%) held by him as voting trustee, and 114,965 shares (1.6%) held by Samuel Friedland Family Foundation (See Item 4 - "Parents and Subsidiaries").

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MANAGEMENT

Item 14. ***Directors and Executive Officers of the Registrant***

GRANT C. GENTRY—Chairman of the Board, President and Chief Executive Officer
Age—56

Mr. Gentry was elected to his present position as Chairman of the Board, President and Chief Executive Officer on January 4, 1979. From April 1, 1978 to January 4, 1979, he was a Partner and Management Consultant with Adamy, Foley & Gentry. From March 1, 1975 to November 11, 1977, he was President and Director of The Great Atlantic and Pacific Tea Company. From March 2, 1958 to March 1, 1975 he served in various positions at Jewel Companies, Inc., ultimately becoming Executive Vice President and Director. Mr. Gentry also serves as a director of Olson Farms, Inc. and Borman's, Inc.

JOSEPH L. CASTLE—Director
Age—48

Mr. Castle was elected a Director on May 15, 1979. He is the Principal of Joseph L. Castle Associates, a firm engaged in business financial consulting. He also serves as Trustee in the reorganization of the Reading Company and a director of Horn and Hardart Baking Company and Pennsylvania Reading Seashore Lines. He is also actively engaged in the oil and gas industry as a Managing Partner of fourteen partnerships with various working interests in Pennsylvania, West Virginia, Ohio, Louisiana and Texas. Mr. Castle is a former partner in the investment services firm of Butcher & Sherrerd and has been a vice president of the Philadelphia National Bank.

JOHN M. FOX—Director
Age—67

Mr. Fox was elected a Director on November 28, 1979. He is the retired Chairman and Chief Executive Officer of H.P. Hood, Inc. An agribusiness consultant, Mr. Fox is a member of the Board of Trustees of Eastern Gas and Fuel Associates and a director of International Business Machines Corporation, SCA Services, Inc., The Harvey Group, Inc. and Director Emeritus of The Boston Company. Mr. Fox is the former Chairman and Chief Executive Officer of United Fruit Company and also served as President of Minute Maid Corporation, a company he helped to found.

ROGER L. GALASSINI—Executive Vice President, Chief Administrative Officer, General Counsel and Director
Age—41

Mr. Galassini was elected to Vice President, General Counsel and Director in February, 1979. On March 14, 1980, he was elected to the positions of Executive Vice President and Chief Administrative Officer. He was employed by The Great Atlantic and Pacific Tea Company from July, 1975 to February, 1979, as Vice President for Public Affairs, becoming Vice President Administrative Services in April, 1978. From March, 1969 to July, 1975, he was employed by Jewel Companies, Inc., as corporate counsel, becoming Assistant General Counsel in December, 1972 and Secretary in October, 1974. Mr. Galassini was elected a director of Amterre Development Inc in March, 1980.

FRANK N. JAMES—Executive Vice President, Chief Operating Officer and Director
Age—55

Mr. James was elected as Executive Vice President on March 14, 1980, and as Chief Operating Officer of the Company in March, 1979. He has served as a Director of the Company since January, 1977. From June, 1978 to March, 1979, he was Vice President in charge of Administrative Services. He was President of the Company's Pantry Pride Supermarket Division from September, 1976 to June, 1978, becoming a corporate Vice President in September, 1976. From January, 1975, to May, 1976, he was President of Colonial Stores, Inc., a supermarket chain based in Atlanta, Georgia. Mr. James previously served as Vice President and Director of the Company from August, 1973 to January, 1975.

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JEWEL LAFONTANT—Director
Age—57

Mrs. Lafontant was elected a Director on August 9, 1979. She is a partner of Lafontant, Wilkins & Butler, attorneys-at-law. She also serves as a director of Trans World Corporation, Bendix Corporation, Continental Illinois Corporation, Foote, Cone & Belding, Inc., Harte-Hanks Communications, Inc., and The Equitable Life Assurance Society of the United States. She is a former Deputy Solicitor General of the United States and has served as a Commissioner of the National Council on Minority Business Enterprises, Chairman of the Advisory Board of the United States Civil Rights Commission, and member of the Advisory Commission on International Education and Cultural Affairs.

JAMES J. NEEDHAM—Director
Age—54

Mr. Needham was elected a Director on March 20, 1979. He was a Distinguished Professor, Graduate Division of the College of Business Administration of St. John's University from 1977 to 1978. From 1972 to 1976, he served as Chairman and Chief Executive Officer of the New York Stock Exchange, Inc., and from 1962 to 1972 as a Commissioner of the Securities and Exchange Commission. Mr. Needham is also a director of Merrill Lynch Municipal Bond Fund, Inc., Merrill Lynch CMA Money Trust, Lexington Growth Fund, Inc., Lexington Research Fund, Inc., Lexington Income Fund, Inc., Lexington Tax Free Income Fund, Inc., The Lexington Money Market Trust, SCA Services, Inc., NVF Company, Sharon Steel Corporation, Ceasars World, Inc., and Caesars New Jersey, Inc.

JAMES J. WACHTER—Director
Age—41

Mr. Wachter was elected to his position as Senior Vice President, Chief Financial Officer and Director on March 14, 1980. He was employed by Central Resources Corporation from March, 1976 to March, 1980, first as Controller and then as Vice President-Finance. From April, 1974 to March, 1976, he served as Group Controller in the International Division of International Playtex, Inc.

JOHN T. GRIGSBY, JR.—Vice President and Treasurer
Age—40

Mr. Grigsby was elected to his position as Vice President on April 11, 1979. On November 1, 1979, he assumed the additional responsibility of Treasurer. Until March 14, 1980, he also served as Chief Financial Officer and a Director of the Company. From 1969 to April 10, 1979, Mr. Grigsby was a Certified Management Consultant with Touche Ross & Co.

LEONARD J. PASTERNAK—Vice President
Age—46

Mr. Pasternak was elected a corporate Vice President November 1, 1979. He joined the Company in 1964 as executive vice president of its Ideal Shoe Company subsidiary, becoming its president in 1968 and president of the Footwear Services subsidiary in 1969.

DARRELL V. STIFFLER, JR.—Senior Vice President-Industrial Relations
Age—54

Mr. Stiffler was elected to his present position on March 14, 1980. From September, 1978 until that date, he had served as Vice President-Industrial Relations. Previously, he was Corporate Vice President-Industrial Administration and Vice President of Industrial Relations for The Great Atlantic and Pacific Tea Company, a company where he served for almost 30 years.

NEIL THALL—Vice President-Management Information Systems
Age—33

Mr. Thall was elected to his present position in April, 1979. From 1973 to April, 1979 he was a management Consultant with Touche Ross & Co. Prior to joining Touche Ross, Mr. Thall was Manager of Product Support Systems for Burroughs Corp.

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HOWARD F. GORDON—Secretary
Age—39

Mr. Gordon was elected Secretary in 1975. He has been Corporate Counsel since 1972, and was named Assistant General Counsel in March, 1979.

Item 15. *Management Remuneration and Transactions*

(a) The table below sets forth information as to aggregate remuneration paid on an accrual basis by the Company during the fiscal year ended August 2, 1980 to each of its five most highly compensated executive officers or directors whose total remuneration exceeded $50,000, and as to all directors and officers as a group.

Name of individual or persons in group	Capacities in which served	Salaries, fees, commissions, bonuses
Grant C. Gentry	Chairman of the Board, President and Chief Executive Officer	$ 360,000
Frank N. James	Executive Vice President, Chief Operating Officer and Director	$ 140,655
Roger L. Galassini	Executive Vice President, Chief Administrative Officer, General Counsel and Director	$ 113,987
Leonard J. Pasternak	Vice President	$ 105,433
John T. Grigsby, Jr.	Vice President and Treasurer	$ 97,500
All Directors and Officers as a group (17)		$1,315,110

The remuneration set forth above excludes any value attributable to incidental personal benefits, including use of Company automobiles, which may have been derived by certain officers and directors. This exclusion results from the fact that the specific amount of these benefits cannot be determined without unreasonable effort or expense, and after reasonable inquiry, management is not aware of any instance where the aggregate amount of such personal benefits exceeded $10,000 for any officer or director.

(b) *Proposed Remuneration*

(1) *Employment Agreements*

(A) On January 4, 1979, the Company entered into an employment agreement ("Agreement") with Grant C. Gentry, pursuant to which Mr. Gentry is serving as President, Chairman of the Board and Chief Executive Officer of the Company.

Pursuant to the Agreement, Mr. Gentry will be paid compensation consisting of a salary of $350,000 per year for the five-year term of the Agreement. Mr. Gentry was also paid the sum of $100,000 upon execution of the Agreement. In the event of Mr. Gentry's death or disability while employed, payment of such base compensation will continue to be made to his present wife, and, under certain circumstances, may be accelerated. The Company is also obligated to pay to Mr. Gentry, beginning on the later of (i) January 2, 1984 or (ii) his retirement from full time employment with the Company, for the remainder of his life and, if his present wife survives him, thereafter to her for the remainder of her life, as deferred compensation, the annual sum of $54,881, provided that Mr. Gentry has not, on or before January 2, 1984, either been discharged for cause, as specified in the Agreement, or voluntarily resigned his employment with the Company. Under certain circumstances, payments of deferred compensation to Mr. Gentry's wife may be accelerated.

The Agreement futher provided for the issuance to Mr. Gentry of non-transferable options to purchase from the Company, on or before January 2, 1984, an aggregate of 200,000 shares of the Company's common stock at a cash price of $2.00 per share. Mr. Gentry may require the Company

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to register the shares acquired pursuant to such option, and may include such shares in any registration statement otherwise filed by the Company.

Mr. Gentry is also entitled to participate in employee fringe benefits generally available to the Company's key employees.

In order to assure Mr. Gentry of the availability of funds to comply with the Company's obligation, the Company has established separate trust funds with respect to and to secure the Company's obligations to pay base and deferred compensation to Mr. Gentry. Under the trust agreement pertaining to Mr. Gentry's base compensation, the Company deposited $1,558,662 in trust; under the trust agreement relating to Mr. Gentry's deferred compensation, the Company deposited $589,725 in trust. The trust agreements provide that the sums held in trust shall be reduced (and the amount of such reductions returned to the Company) in amounts equal to payments made by the Company to Mr. Gentry pursuant to the Agreement.

In the event of termination of Mr. Gentry's employment as a result of the transfer of the Chapter XI Proceedings to Chapter X of the Bankruptcy Act, or the liquidation of the Company or its adjudication in bankuptcy, Mr. Gentry is entitled to receive the present value of the remaining unpaid balance of his base compensation and the principal of the trust securing his deferred compensation.

(B) Frank James is entitled to total deferred compensation equal to $15,000 for each year he is employed by the Company since January 1, 1977, plus interest and an amount equal to any pension benefits loss by not treating Mr. James' deferred compensation as part of his annual salary when computing his benefits under the Company's Salaried Employees Retirement Plan, payable in installments upon his retirement, or to his designee in the event of his death prior to retirement. In addition to any benefits that might accrue to him under the Salaried Employees Retirement Plan since January 1, 1977, the Company has agreed to pay Mr. James, upon his retirement at normal retirement age, the amount of $11,390 per annum during his lifetime, which amount is equivalent to the pension that Mr. James would have received under the Company's Salaried Employees Retirement Plan (but for his voluntary separation from service in January, 1975) upon retirement by reason of his service with the Company prior to January, 1975.

(2) *Salaried Employees Retirement Plan*

The Salaried Employees Retirement Plan (the "Retirement Plan") provides fixed retirement benefits for employees of the corporation. Based upon certain assumptions, including the continuation of the Retirement Plan without amendment, the following table shows the annual retirement benefits which would be payable to persons at various salary levels after specific years of service:

Basic Annual Pay Assumed Constant	Estimated Annual Retirement Benefits for Number of Years Future Credited Service		
	10 years	20 years	30 years
$ 50,000	$ 5,558	$11,115	$16,673
100,000	13,058	26,115	39,173
150,000	20,558	41,115	61,673
200,000	28,058	56,115	84,173
250,000	35,558	71,115	98,100*
300,000	43,058	86,115	98,100*
350,000	50,558	98,100*	98,100*
400,000	58,058	98,100*	98,100*

*Maximum benefit provided by the Retirement Plan.

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The above figures are based upon the Retirement Plan, as amended, assuming the 1980 Social Security level remains constant. Contributions are made solely by the Company and are determined on a group basis and therefore, amounts relating to pension benefits have been omitted from the compensation table set forth at the beginning of Item 15. Under the Retirement Plan, contributions are based upon a percentage of participants' base compensation, excluding any bonuses, overtime or other special forms of remuneration. The percentage of base compensation used is developed by an independent actuary, and as of January 1, 1980 was 5.2%. For the fiscal year ended July 29, 1978, with respect to which contributions were due in the 1979 fiscal year, the Company has obtained a waiver from the Internal Revenue Service on making any contributions to the Retirement Plan. Under the terms of this waiver, the Company will fund its obligations with respect to 1978 over the next 15 years.

(c) *Remuneration of Directors*

(1) Non-employee directors receive annual fees of $10,000 plus $500 for each Board or Board committee meeting attended, except that members of the Audit Committee receive $1,000 for each full day spent on Committee business.

(2) In March, 1979, James J. Needham entered into a consulting services agreement with the Company providing for payments to him of an additional $17,000 per annum. This agreement was approved by the Bankruptcy Court on March 23, 1979.

(3) In late 1979, the law firm of Lafontant, Wilkins & Butler of which Jewel S. Lafontant is a partner, was engaged by the Company, subject to Court approval, to perform certain legal services including a review of the Company's equal employment opportunities practices and assist in the development and implementation of an affirmative action plan. As of August 2, 1980, no fees have been paid on account of this engagement.

(4) In April, 1980, Joseph L. Castle Associates, of which Joseph L. Castle is the Principal, was retained by the Company's Retirement Committee to act as a special advisor and consultant. For its services, Joseph L. Castle Associates was paid $2,000 in fees as of August 2, 1980.

(d) *Options, Warrants or Rights*

(1) Mr. Gentry holds options to purchase 200,000 shares of the Company's Common Stock at $2.00 per share. (See Item 15(b)(1)(A) above.)

(2) On April 11, 1979, the Board of Directors adopted a non-qualified employee stock option plan (the "Option Plan") which plan was approved by the Bankruptcy Court on May 2, 1979. Pursuant to the terms of the Option Plan, 150,000 shares of the Company's common stock have been reserved for issuance thereunder. The per share purchase with respect to options granted under the Plan has been equal to the mean of the closing bid and asked prices of Company shares on the date of grant. The Option Plan provides that options are nontransferable and that no option granted thereunder may be exercised prior to six months after the date of grant. The following table shows as to certain directors and officers and as to all directors and officers as a group (i) the amount of the options granted under the Plan since July 28, 1979 and (ii) the amount of shares subject to all unexercised options granted under the Plan held as of September 30, 1980:

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	Roger L. Galassini	John T. Grigsby, Jr.	Frank N. James	Leonard J. Pasternak	All Directors & Officers as a group
Granted July 29, 1979 to September 30, 1980:					
Number of Shares	–	–	–	–	12,500
Average per share option price	–	–	–	–	$3.44
Unexercised at Setpember 30, 1980:					
Number of Shares	10,000	10,000	15,000	10,000	72,500
Average per share option price	$4.44	$4.44	$4.44	$4.44	$4.25

In addition, at September 30, 1980, other employees held options covering an aggregate of 60,000 shares at an average per share option price of $4.13. As of September 30,1980, none of the options granted under the Option Plan had been exercised.

(e) *Transactions with Management*

During the fiscal year ended August 2, 1980, an approximate total of $2,037,100 of roasted coffee and other Company products were sold, in the normal course of business, directly or indirectly to Borman's, Inc. Grant C. Gentry is a director of Borman's, Inc.

(f) *Transactions with Pension or Similar Plans*

None, other than for the services described in Item 15(c)(4) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant had duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: October 30, 1980

FOOD FAIR, INC.

By /S/ James J. Wachter

James J. Wachter,
Senior Vice President and
Chief Financial Officer

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Food Fair is responsible for the preparation and integrity of the consolidated financial statements and other financial information appearing herein. Preparation of such financial statements necessarily involved estimates based on current available information and Management's judgement of current conditions and circumstances. Such statements, except to the extent indicated in footnotes with respect to the fiscal year 1979, were prepared in accordance with generally accepted accounting principles.

Internal Accounting Controls

A breakdown in systems of control and recordkeeping had contributed to Food Fairs's financial problems leading to the filing of the Chapter XI proceedings in October, 1978. These problems were considerably aggravated in subsequent months by the major dislocations attendant to the Chapter XI environment, including wholesale loss of personnel familiar with the Company's pre-existing systems, disruptions caused by the closing and disposition of two-thirds of the pre-Chapter XI business operations, loss or misplacing of records due to physical transfer resulting from change of office locations, disruptions of records due to their review by various governmental agencies and others, diversion of managerial effort from ongoing business operations to matters relating to the very survival of Food Fair as a corporate entity, such as working out a viable plan of arrangement with the Company's pre-Chapter XI creditors and of an effective disposition program for maximum realization from the closed and discontinued operations of the Company. (The closing and disposition program involved over 500 separate properties and termination of over 20,000 employees.) Also, Food Fair has been bearing the burden in this period of identifying and properly valuing a large volume of claims being filed in the Chapter XI proceedings.

The Company has made substantial efforts to develop a system of internal accounting controls designed to meet these problems and the requirements of its significantly revised business situation. Initially, this included developing a number of temporary arrangements to meet the crisis environment in which the Company found itself following the filing of the Chapter XI petitions. Subsequently, the Company engaged in a program of restructuring and building a qualified financial, accounting and internal auditing staff, including the following persons employed by the Company since the spring of 1979:

James J. Wachter	Corporate Senior Vice President and Chief Financial Officer
John T. Grigsby, Jr.	Corporate Vice President and Treasurer
Neil Thall	Corporate Vice President Management Information Systems
John V. Marra	Vice President - Controller
Henry L. Morris	Vice President, Store Systems
Robert C. Strauss	Vice President, Financial Planning and Analysis
James R. Bragg	Director of Corporate Development
Richard Pritchett	Director of Internal Audit
John Sommerer	Director of Management Information Systems

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Henry H. Graham	Assistant Controller
Gary R. Ellis	Manager, Financial Systems & Procedures
Ronald Matasich	Manager of Corporate Development
Joseph H. Schneider	Manager of Planning

In addition, new managerial personnel have been added to regional and divisional accounting staffs.

Other features of the new internal accounting control program have been developments of a new budgetary process, taking over direct operation of data processing, establishing a forward financial planning group and developing of an overall long-term program for assessing and improving the internal accounting control process. Furthermore, Management has endeavored to develop an environment properly supportive of maintenance of essential accountability in all phases of the Company's operations. The resultant system of internal accounting controls is intended to provide reasonable assurance as to the reliability of the financial records and the protection of assets against loss from unauthorized use or disposition. Management believes that Food Fair's system of internal control provides as of August 2, 1980, such reasonable assurance. However, there are inherent limitations that should be acknowledged in evaluating the potential effectiveness of any system of internal accounting control. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the benefits derived; the evaluation of those factors requires estimates and judgments by management. In addition, management expects to continue to modify and improve its system of accounting and controls and operations and to reflect in those revisions the comments and recommendations made from time to time by the Company's independent certified public accountants and internal audit staff. The ongoing effort to maintain and improve an effective system of internal control and reliable financial reporting will continue to be monitored by the Company's principal executives and the Board of Directors.

Management is not aware of any present circumstances that will hereafter prevent the timely release of either interim or annual financial statements for Food Fair.

Audit Committee

A reconstituted Audit Committee, consisting of newly elected outside directors, began functioning in the summer of 1979. While the Committee has been required to devote substantial amounts of time to the analysis of investor and derivative litigation against the Company growing out of alleged actions and omissions prior to the filing of the Chapter XI petitions and the consideration of possible claims against prior management, a major effort has also been expended by the Audit Committee in developing a strong control environment for the Company. This has included numerous meetings with the Company's independent certified public accountants with respect to the audit process and the status of the Company's systems of internal accounting controls and records and frequent meetings with the Company's principal executives, including financial, accounting, budgeting, control and internal auditing managers.

In the audit process the Audit Committee has conferred directly with the Company's officers and with the independent certified public accountants with respect to questions on accounting adjustments and the comments of the independent certified public accountants with respect to the Company's financial statements and accounting controls.

Independent Certified Public Accountants

Touche Ross & Co., independent certified public accountants, were engaged to examine the Company's financial statements. The report of Touche Ross for the fiscal years ended August 2, 1980 and July 28, 1979, which follows herein, is based on examination of Food Fair's consolidated financial statements in accordance

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with generally accepted auditing standards, except with respect to the fiscal year ending July 28, 1979. That report contains a disclaimer of opinion for the reasons stated therein.

The Company's independent certified public accountants and internal audit department have full and free access to the Audit Committee.

Grant C. Gentry Chairman of the Board, President and Chief Executive Officer	James J. Wachter Senior Vice President and Chief Financial Officer

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FOOD FAIR, INC.
(DEBTOR IN POSSESSION)
ITEM 12(a) FINANCIAL STATEMENTS AND SCHEDULES
Fifty-Three Weeks Ended August 2, 1980 and Fifty-Two Weeks Ended July 28, 1979

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Touche Ross & Co.		41
Consolidated financial statements:		
Statement of significant accounting policies		43
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Statements of operations		47
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Schedules furnished pursuant to the requirements of Regulation S-X:		
Amounts receivable from underwriters, promoters, directors, officers, employees and principal holders (other than affiliates) of equity securities of the person and its affiliates	II	72
Property and equipment	V	73
Accumulated depreciation and amortization of property and equipment	VI	74
Valuation and qualifying accounts and reserves	XII	75
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The individual financial statements of the Registrant have been omitted because the Registrant is primarily an operating company and all subsidiaries included in the consolidated financial statements, in the aggregate, do not have minority equity interests and/or indebtedness to any person other than the Registrant or its consolidated subsidiaries in amounts which together exceed 5 percent of consolidated total assets at August 2, 1980, excluding indebtedness deferred pursuant to the Chapter XI Proceedings or incurred in the ordinary course of business which is not overdue and which matures within one year from the date of its creation and indebtedness of subsidiaries collateralized by the Registrant.

Schedules other than those listed above have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Shareholders
Food Fair, Inc. (Debtor in Possession)
Fort Lauderdale, Florida

We have examined the consolidated balance sheets of Food Fair, Inc. and subsidiaries (debtor in possession) as of August 2, 1980 and July 28, 1979, and the related consolidated statements of operations, deficit and changes in financial position and the additional information listed in the accompanying index of financial statements and schedules for the years then ended. Except as described in the following paragraph, our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In 1979, material weaknesses in the Company's systems of internal control and deficiencies in record-keeping practices and other conditions described in Note 2 were such that, in a number of instances, Company employees, many of whom had recently assumed their positions, were unable to locate adequate documentation in support of, and provide satisfactory explanation for recorded transactions and balances. These conditions precluded us from obtaining sufficient evidential matter to satisfy ourselves on the extent to which 1979 operations reflect certain revenue and expenses which relate to prior or future periods and as to whether there are incorrect classifications within the consolidated statements of operations and changes in financial position. The Company has programs to correct material deficiencies in internal control and recordkeeping practices. Progress in the programs, including temporary remedial steps undertaken by management pending completion of the programs was considered in determining the nature, timing and extent of the audit tests to be applied in our examination of the 1980 consolidated financial statements. Company employees were able to locate adequate documentation in support of and provide satisfactory explanation for transactions recorded in 1980 and balances at August 2, 1980.

Food Fair, Inc. and certain of its subsidiaries are operating as debtor in possession under Chapter XI of the Bankruptcy Act pursuant to an order on October 2, 1978 by the Bankruptcy Court. In July 1980, the Official Creditors' Committees approved the elements of a proposed Plan of Arrangement as described in Note 4. In order for the Plan to become effective, the shareholders must approve certain corporate changes and the Plan must be approved by a majority vote, in number and amount, of each class of eligible creditors and confirmed by the Court. The Plan will not be confirmed unless among other things, the Court finds the Plan to be feasible and in the best interest of the creditors within the meaning of the Bankruptcy Act. In order to effectuate the Plan, the Company must generate sufficient cash by some combination of asset sales, settlement of claims, profitable operations or outside financing. If the Chapter XI Proceedings are not concluded by confirmation of the Plan of Arrangement, we are advised that it is possible that the proceedings will be transferred to the corporate reorganization provisions of Chapter X of the Act and a trustee appointed, or the Company may be adjudicated a bankrupt and its assets liquidated.

As described in Notes 5 and 6, the Company is a defendant in several law suits, is the subject of investigations by the Securities and Exchange Commission and a Federal grand jury and has been notified of a possible termination of its Perishable Agricultural Commodities Act (PACA) license and has other significant contingencies. The outcome of the lawsuits and investigations cannot presently be determined.

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The accompanying consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business at the amounts stated in the accompanying consolidated balance sheets. The Company's ability to continue as a going concern is dependent upon its:

—obtaining the approval of the shareholders for corporate changes and approval of the creditors and confirmation by the Court of a plan of arrangement;

—achieving profitable operations and generating cash sufficient to comply with terms of a confirmed plan of arrangment and sustaining normal trade credit terms with suppliers;

—obtaining adequate financing for the future needs of the Company, including that needed to complete the Capital Improvements Program, referred to in Note 1.5;

—favorably resolving pending litigation, Federal grand jury and SEC investigations and other contingencies referred to in Notes 5 and 6;

—renewing its PACA license.

Should the Company be unable to satisfactorily resolve the material uncertainties above, it would likely be unable to continue as a going concern and/or be adjudicated a bankrupt, and it would be required to realize its assets and liquidate its liabilities in other than the normal course of business and possibly at amounts materially different from those included in the accompanying consolidated balance sheets.

In 1979, as described in Note 15, the Company adopted new methods of accounting as a result of which the Company now charges warehousing costs and payroll taxes to operations as incurred. We concur with these changes.

In 1979 material weaknesses in the Company's systems of internal control and deficiencies in its record keeping practices prevented the Company, and therefore us, from obtaining sufficient evidence to provide the disclosures required by generally accepted accounting principles that had been omitted and to ascertain the extent to which 1979 results of operations reflect incorrect classifications and include revenues and expenses which relate to prior or future periods, including the extent, if any, to which the adjustment for self-insurance (described in Note 2.3) and the provision for creditors' claims (described in Note 2.2) applies to years prior to 1979.

It is not possible to determine the effects on the accompanying consolidated financial statements of such adjustments as might have been required had the outcome of material uncertainties relating to the Company's continuation as a going concern been known. Accordingly, we are unable to and do not express an opinion on the accompanying financial statements referred to in the first paragraph of this report.

Miami, Florida
October 24, 1980

TOUCHE ROSS & CO.
CERTIFIED PUBLIC ACCOUNTANTS

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FOOD FAIR, INC.
(DEBTOR IN POSSESSION)
STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES
Fifty-Three Weeks Ended August 2, 1980 and Fifty-Two Weeks Ended July 28, 1979

Going concern

The accompanying consolidated financial statements are prepared on the basis of the continuation of the Company as a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business, except that interest on certain indebtedness has not been accrued since October 2, 1978, the date of filing petitions for an arrangement under Chapter XI of the Bankruptcy Act, and certain disaffirmed lease obligations have been reduced in the accompanying consolidated financial statements to reflect the anticipated application of provisions of the Bankruptcy Act. As indicated in Note 1, "Significant matters," and elsewhere in the notes to consolidated financial statements, the Company's ability to realize its assets and liquidate its liabilities in the normal course of business is dependent upon the outcome of a number of significant uncertainties.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly and majority owned subsidiaries, except its life insurance company which is recorded on the equity method. All significant intercompany balances and transactions have been eliminated (Note 2).

Discontinued J.M. Fields and closed supermarket operations

Operations terminated during the fiscal year ended July 28, 1979, and the assets and liabilities thereof have been accounted for in accordance with the following policies:

Operations

Separate provisions were made in 1979 for losses from disposal of properties and termination expenses of the discontinued J.M. Fields department store and closed supermarket operations, representing losses incurred during the disposal period and allowances required to reduce the assets of discontinued and closed operations to estimated realizable amounts. The provisions include estimates of incurred and future carrying and selling costs and estimated losses which have been or are expected to be incurred upon the sale or liquidation of such assets, less gains which have been or are expected to be realized from the sales of certain properties. The status of these allowances is reviewed periodically to determine their adequacy. Any change to these allowances is charged or credited to operations in the period the need for an adjustment becomes evident.

Net assets held for disposition

Assets of discontinued and closed operations and other assets not essential to ongoing operations are stated at estimated net realizable amounts as reduced by related liabilities, and are combined in the consolidated balance sheets (Note 3).

Inventories

Inventories are stated at the lower of cost or market, with cost being determined as follows: inventories in stores - principally retail inventory method; inventories in warehouses - principally average cost; inventories at manufacturing facilities - first-in, first-out method.

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FOOD FAIR, INC.

(DEBTOR IN POSSESSION)

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Fifty-Three Weeks Ended August 2, 1980 and Fifty-Two Weeks Ended July 28, 1979

Property, equipment, depreciation and amortization

Property and equipment is stated at cost. Facility and equipment leases having the substance of financing transactions have been capitalized, and related lease obligations have been included in liabilities. Depreciation and amortization is computed by the straight-line method over the estimated useful lives of assets, as follows:

Buildings	20-35 years
Fixtures and equipment	3-10 years
Capitalized leased assets	15-25 years

Leasehold improvements are depreciated or amortized over periods ranging from 10 to 20 years, representing the shorter of the term of the lease or the estimated useful life of the improvements.

Expenditures for maintenance and repairs, which under current circumstances may not be indicative of normal levels of expenditure, are charged to operations and major renewals and betterments are capitalized. Costs and related accumulated depreciation of properties sold or otherwise retired have been eliminated from the accounts, and gains and losses on disposition are reflected in operations.

Per share of common stock

Per share of common stock data is stated after applicable preferred stock dividends and is based on 7,358,277 shares outstanding during each year. The dilutive effect of stock options for the year ended August 2, 1980 is not material and has not been reflected in the per share computations for that year. For the year ended July 28, 1979 the average number of shares outstanding has not been adjusted to include common stock equivalents because their inclusion in the calculation was anti-dilutive.

Self-insurance

Self-insurance liabilities are provided for workers' compensation and automobile and general liability risks not covered by insurance. The provision represents the estimated liability, based upon a review by the Company and an independent insurance broker, for claims filed and for claims incurred but not reported.

Deferred income

Deferred income represents the unrecognized gains resulting from the renegotiation of certain lease obligations. The deferred income is amortized over the terms of the renegotiated leases.

Pensions

Pension expense charged to operations includes normal cost and amortization of prior service costs over a 40-year period. Pension costs are funded as accrued, except that a waiver from the Internal Revenue Service had been obtained whereby 1978 costs of certain pension plans will be funded over a 15-year period.

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FOOD FAIR, INC.

(DEBTOR IN POSSESSION)

CONSOLIDATED BALANCE SHEETS

ASSETS

(dollars in thousands)

	August 2, 1980	July 28, 1979
Current assets:		
Cash (includes certificates of deposit of $15,675 and $4,813 in 1980 and 1979, respectively)	$ 21,730	$ 27,505
Reimbursement due from restricted cash (Note 3)	9,568	9,698
Accounts receivable, trade and other, net of allowance for doubtful accounts of $3,176 and $3,257 in 1980 and 1979, respectively	13,685	9,993
Refundable income taxes and accrued interest (Note 13)	6,875	2,054
Inventories	79,196	85,602
Other current assets	3,626	1,643
Total current assets	134,680	136,495
Restricted cash (Note 3)	106,614	49,676
Net assets held for disposition (Note 3)	11,342	83,390
Investments and other assets (Note 8)	12,324	11,575
Property and equipment (Notes 9 and 10):		
Land	7,775	7,323
Buildings	24,320	27,653
Capitalized leased assets	90,630	100,170
Leasehold improvements	20,209	17,822
Fixtures and equipment	58,884	59,656
	201,818	212,624
Less accumulated depreciation and amortization	(100,796)	(104,029)
	101,022	108,595
	$365,982	$389,731

See notes to consolidated financial statements and statement of significant accounting policies.

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FOOD FAIR, INC.
(DEBTOR IN POSSESSION)
CONSOLIDATED BALANCE SHEETS
LIABILITIES, REDEEMABLE PREFERRED STOCK, COMMON STOCK, AND OTHER ELEMENTS OF DEFICIENCY IN ASSETS
(dollars in thousands)

	August 2, 1980	July 28, 1979
Current liabilities:		
Notes payable (Note 9)	$	$ 15,000
Accounts payable	19,948	24,636
Accrued salaries and expenses	29,514	37,160
Current portion:		
Long-term debt (Note 9)	5,282	5,880
Capitalized lease obligations (Note 10)	5,642	5,855
Total current liabilities	60,386	88,531
Liabilities deferred pursuant to proceedings under Chapter XI (Note 4)	385,769	388,582
Capitalized lease obligations (Note 10)	48,827	60,839
Long-term debt (Note 9)	8,723	12,771
Deferred income	2,467	
Deferred income taxes (Note 13)		1,771
Total liabilities	506,172	552,494
Commitments and contingencies (Notes 1, 4, 5, 6, 9, and 10)		
Redeemable preferred stock, $4.20 cumulative; $15 par value; 108,190 shares authorized of which 16,190 are issued and outstanding; stated at redemption value of $100 per share (Notes 4 and 11)	1,619	1,619
Common stock, par value $1 per share; 10,000,000 shares authorized of which 7,557,378 are issued in each year (Notes 4 and 12)	7,557	7,557
Other elements of deficiency in assets:		
Captial in excess of par	51,241	51,241
Accumulated deficit	(199,270)	(221,843)
Cost of 199,101 common shares in treasury	(1,337)	(1,337)
	$365,982	$389,731

See notes to consolidated financial statements and statement of significant accounting policies.

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FOOD FAIR, INC.

(DEBTOR IN POSSESSION)

CONSOLIDATED STATEMENTS OF OPERATIONS

Fifty-Three Weeks Ended August 2, 1980 and Fifty-Two Weeks Ended July 28, 1979

(dollars in thousands except per share figures)

	1980	1979
Revenues:		
Sales (Note 3)	$1,124,067	$1,487,270
Other income, net	4,583	4,973
	1,128,650	1,492,243
Costs and expenses (Note 3):		
Cost of sales	893,707	1,216,027
Operating and administrative expenses	227,949	326,657
Interest expense, net (Note 9)	4,469	16,506
Provision for creditors' claims (Note 2)		23,804
	1,126,125	1,582,994
Income (loss) from continuing operations before unusual items and income taxes	2,525	(90,751)
Unusual items (Note 2.3)	10,700	(55,787)
Income (loss) from continuing operations before income taxes	13,225	(146,538)
Income tax expense (Note 13)	2,043	
Income (loss) from continuing operations	11,182	(146,538)
Income (loss) from discontinued J.M. Fields operations (Notes 2 and 3):		
Reduction in (provision for) estimated loss from disposal of properties and termination expenses, including net loss from operations after February 10, 1979, less related tax of $2,450 in 1980	2,550	(11,319)
Loss from operations, including provision for creditors' claims of $10,096		(47,659)
Income (loss) from discontinued operations	2,550	(58,978)
Income (loss) before extraordinary item and cumulative effect of accounting changes	13,732	(205,516)
Extraordinary item - utilization of net operating loss carry-forward (Note 13)	8,841	
Cumulative effect of accounting changes (Note 15)		(5,563)
Net income (loss)	22,573	(211,079)
Preferred dividend requirements	68	68
Net income (loss) applicable to common stock	$ 22,505	($ 211,147)
Per share of common stock:		
Continuing operations, including unusual items and deferred tax and tax refund benefits	$ 1.51	($ 19.92)
Discontinued J.M. Fields operations	.35	(8.02)
Extraordinary item	1.20	
Cumulative effect of accounting changes		(.76)
Net income (loss)	$ 3.06	($ 28.70)

See notes to consolidated financial statements and statement of significant accounting policies.

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FOOD FAIR, INC.

(DEBTOR IN POSSESSION)

CONSOLIDATED STATEMENTS OF ACCUMULATED DEFICIT

Fifty-Three Weeks Ended August 2, 1980 and Fifty-Two Weeks Ended July 28, 1979

(dollars in thousands except per share figure)

	1980	1979
Balance, beginning	($ 221,843)	($ 10,747)
Net income (loss)	22,573	(211,079)
Cash dividends paid:	(199,270)	(221,826)
Preferred stock $1.05 per share		17
Balance, ending	($ 199,270)	($ 221,843)

See notes to consolidated financial statements and statement of significant accounting policies.

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FOOD FAIR, INC.
(DEBTOR IN POSSESION)
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Fifty-Three Weeks Ended August 2, 1980 and Fifty-Two Weeks Ended July 28, 1979

(dollars in thousands)

	1980	1979
Source of funds:		
Operations:		
Income (loss) from continuing operations	$ 11,182	($ 146,538)
Charges (credits) not affecting working capital:		
Depreciation and amortization	12,977	24,071
Deferred income taxes	(1,771)	
Provision for creditors' claims and adjustment for self-insurance	4,100	38,327
(Reduction in) provision for estimated loss on net assets held for disposition	(6,000)	33,128
Excess of obligations over related assets of disposed capitalized leases		(37,628)
Cumulative effect of accounting changes		(5,563)
Other		8,891
Funds provided from (used in) continuing operations, exclusive of extraordinary item	20,488	(85,312)
Income (loss) from discontinued operations	2,550	(58,978)
Charges (credits) not affecting working capital:		
Depreciation and amortization		2,982
Provision for creditors' claims		10,096
(Reduction in) provision for estimated losses on net assets held for disposition	(5,000)	9,759
Funds used in discontinued operations, exclusive of extraordinary item	(2,450)	(36,141)
Extraordinary item — utilization of net operating loss carryforward	8,841	
Total funds provided from (used in) operations	26,879	(121,453)
Proceeds from disposition of property and equipment	122,128	
Increase in deferred income	2,467	
Retirement of property and equipment, net	6,644	2,030
Deferral of liabilities pursuant to proceedings under Chapter XI		340,159
Carrying value of assets disposed		179,517
Other, net		9,404
	$ 158,118	$ 409,657
Application of funds:		
Increase in restricted cash, investments and other assets	$ 57,687	$ 60,905
Purchase of property and equipment	18,610	11,981
Current maturities and payments of long-term debt	4,048	15,096
Reduction in capitalized lease obligations	12,012	
Deferred disposition losses net of gains, and loss from operations after February 10, 1979	32,518	78,595
Reclassification of working capital of closed and discontinued operations to net assets held for disposition		138,166
Reduction in liabilities deferred pursuant to proceedings under Chapter XI	6,913	
Increase in working capital	26,330	104,914
	$ 158,118	$ 409,657

See notes to consolidated financial statements and statement of significant accounting policies.

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FOOD FAIR, INC.
(DEBTOR IN POSSESSION)
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
Fifty-Three Weeks Ended August 2, 1980 and Fifty-Two Weeks Ended July 28, 1979

(dollars in thousands)

(continued)

	1980	1979
Working capital changes—increase (dec-ease):		
Cash and reimbursement due from restricted cash	($ 5,905)	$ 18,599
Accounts receivable	3,692	(10,024)
Refundable income taxes and accrued interest	4,821	2,054
Inventories	(6,406)	(181,461)
Other current assets	1,983	(7,622)
Notes payable	15,000	21,685
Accounts payable	4,688	121,442
Accrued salaries and expenses	7,646	10,354
Current portions of long-term debt and capitalized lease obligations	811	129,887
	$ 26,330	$ 104,914

See notes to consolidated financial statements and statement of significant accounting policies.

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FOOD FAIR, INC.
(DEBTOR IN POSSESSION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Fifty-Three Weeks Ended August 2, 1980 and Fifty-Two Weeks Ended July 28, 1979
(figures in tables in thousands)

1. Significant matters

1.1 Recurring losses from unprofitable J.M. Fields discount department store operations and from declining supermarket profitability culminated in the Company's sustaining substantial losses from operations and developing a severe working capital shortage which resulted in the filing on October 2, 1978, of petitions under Chapter XI of the Brankruptcy Act. On that date, the United States District Court for the Southern District of New York (Court) entered an order authorizing the Company and certain subsidiaries to continue operations as debtor in possession.

1.2 As described more fully in Note 6, "Commitments and contingencies," the Company is defendant in a number of lawsuits, the ultimate outcome of which are not presently determinable. Under the provisions of the Bankruptcy Act, the filing of Chapter XI petitions gave rise to an automatic stay of all actions against the filing companies; however, upon confirmation of a plan of arrangement, the actions may be resumed.

1.3 The Company is the subject of an ongoing investigation by the Securities and Exchange Commission concerning transactions between the Company and certain parties (Note 5) and the adequacy of the Company's financial disclosures for a period of years prior to the filing of the Chapter XI petitions (Note 2). The Commission has given no indication of whether any proceedings against the Company are contemplated. A federal grand jury is also investigating transactions with certain parties for a period of years prior to the filing of the Chapter XI petitions.

1.4 Since commencement of the Chapter XI Proceedings, the Company has negotiated and proposed an Amended Consolidated Plan of Arrangement, the elements of which were approved in principle by the Official Creditors' Committees in July, 1980. If such Plan is not accepted and confirmed, the Chapter XI Proceedings may be transferred to the corporate reorganization provisions under Chapter X of the Act and a trustee appointed or the Company may be adjudicated a bankrupt and its assets liquidated.

1.5 On October 4, 1979, the Court and Official Creditors' Committees approved use of up to $25,000,000 of restricted funds in the Company's Capital Improvements Program. The program, which involves the expenditure of approximately $196,600,000 over six years, is intended to enable the Company to remodel and expand its supermarket facilities.

1.6 The Company's consolidated financial statements have been prepared on the basis of principles of accounting applicable to a going concern (see statement of significant accounting policies). The continuation of the Company as a going concern is dependent upon its ability to:

- obtain the approval of the creditors and confirmation by the Court of a plan of arrangement, and approval of the stockholders for corporate changes;
- generate sufficient cash to effectuate the proposed Plan of Arrangement;
- sustain profitable operations sufficient to meet ongoing obligations arising from a confirmed plan of arrangement;
- continue normal credit terms with suppliers and other creditors, and obtain adequate financing for the future needs of the Company;
- satisfactorily resolve various pension litigation (Note 6);

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- obtain adequate financing to implement the Capital Improvements Program (Note 3); and
- negotiate a settlement with the U.S. Department of Agriculture to continue as a business licensed under the Perishable Agricultural Commodities Act (Note 6).

2. Significant accounting and internal control matters

2.1 Deficiencies in internal accounting controls and recordkeeping procedures: Material deficiencies in the Company's systems of internal accounting control and recordkeeping practices were found to exist in 1979 and were further aggravated by the Company's pending Chapter XI Proceedings, including ongoing negotiations with creditor groups, the termination of more than two-thirds of the Company's prior operations, significant turnover in management, financial and accounting personnel, relocation of corporate headquarters and corporate records, and changes in accounting systems. Because of these circumstances it was not possible for the Company to reconstruct accounting records that would be required to provide assurances that its 1979 consolidated financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, in their report, dated May 7, 1980, on an examination of the consolidated financial statements for the year ended July 28, 1979, the Company's independent certified public accountants reported that they were not able to complete tests of the accounting records and other auditing procedures that they considered necessary in order to comply with generally accepted auditing standards.

Management has been implementing a plan to strengthen and improve accounting systems, review and revise operating budgets on an ongoing basis, strengthen and improve financial policies and controls, improve data processing support, monitor and manage cost reduction programs, and improve record retention and storage. This plan covers the areas in which the Company and its independent certified public accountants had disclosed deficiencies in internal accounting control in 1979.

In addition to the plan, the Company has assembled a new financial, accounting and management group, restructured its internal accounting organization, improved its management reporting system and reconstituted the Audit Committee of the Board of Directors. Also, an internal audit function has been reestablished; and, a special task force has been analyzing the Company's accounting systems and implementing changes to strengthen the Company's system of internal control.

These steps were designed to provide reasonable assurance as to the reliability of the financial records and the protection of assets against loss from unauthorized use or disposition. Management believes that the Company's system of internal control provides, as of August 2, 1980, such reasonable assurance and expects to continue on an ongoing basis to modify and improve its system of internal accounting control, in order that it can be capable of reporting reliable operating and financial information on a timely basis.

2.2 Provision for creditors' claims: In 1979, the Company provided for amounts claimed by suppliers ($31,900,000) and lenders ($2,000,000) in excess of liability balances recorded in the Company's accounts. The total of $33,900,000 consists of $23,804,000 included in costs and expenses and $10,096,000 included in loss from discontinued J.M. Fields operations. The Company has been engaged in identifying and analyzing differences between these claims and recorded liabilities. This process will not be completed until all claims have been received and authenticated and appropriate orders have been entered by the Court. Upon completion, adjustments may be required to properly reflect amounts due claimants. It is possible that a portion of the provision for creditors' claims represents liabilities incurred prior to July 30, 1978. Amounts, if any, which pertain to prior periods cannot be reasonably estimated because of prior deficiencies in internal accounting controls and recordkeeping procedures relating to these amounts, and therefore the amount has been included in 1979.

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2.3 Unusual items: In 1979, several major items were classified as unusual due to their significance to the results of that year. In 1980, these same items are classified as such together with other items which are also significant to an understanding of the 1980 operating results. The effect of these items on per share of common stock of continuing operations amounted to a benefit of $.74 per share in 1980 and a charge of $7.58 per share in 1979; and, are as follows:

	1980	1979
Bankruptcy related items:		
Administration costs	($ 5,585)	($ 7,735)
Interest income	10,600	2,107
Reduction in (provision for) estimated losses from disposal of properties and termination expenses including net loss from closed supermarket operations after February 10, 1979	6,000	(35,636)
Provision for self-insurance	(4,100)	(14,523)
Interest on tax refund	2,286	
Elimination of excess intercompany balances	2,098	
Refinement of inventory methods	(1,300)	
Sugar anti-trust litigation recovery	701	
	$ 10,700	($ 55,787)

2.31 Bankruptcy related administrative costs include principally professional fees, wages and other expenses incurred because of the Chapter XI Proceedings or processing of creditors' claims. Interest income arises from the investment of restricted cash which will ultimately be utilized to fund a portion of the proposed Plan of Arrangement (Note 4).

2.32 Management reviewed the estimated incurred and future carrying and selling costs, and estimated losses which are expected to be incurred upon the sale or liquidation of the remaining assets held for disposition. As a result, it has become evident that the allowances as originally estimated exceed the amounts necessary to adequately provide for estimated losses. Accordingly, these allowances were reduced by approximately $11,000,000 of which $6,000,000 has been credited to unusual items and $5,000,000 has been credited to discontinued operations.

2.33 Based, in part, on a review by an independent insurance broker, management has provided for substantial anticipated self-insurance losses. Provisions of $4,100,000 in 1980 and $14,523,000 in 1979 are presented as unusual items because such estimated amounts are required for claims incurred in years prior to 1979. Appropriate analyses of claims submitted, if made in prior years, are not available; and restatement would require individual examination of each claim (including thousands of closed claims), and making numerous, often arbitrary, assumptions about what was known about each such claim in each fiscal period. Also some of the provision is for claims against the discontinued J.M. Fields operations. The consolidated financial statements for 1978 and prior years have not been restated because, on the basis of presently available data, management is unable to determine how the provision should be allocated among such prior years during which any such claim was outstanding. Provisions of $3,332,000 and $3,144,000 have been included in costs and expenses for the estimated self-insurance expense applicable for the years ended August 2, 1980 and July 28, 1979, respectively.

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2.34 The Federal income tax returns of the Company have been examined by the Internal Revenue Service through 1978. As a result of their examination, a refund of taxes paid in prior years of $4,589,000 was due to the Company of which $2,666,000 ($.36 per share) is reflected in the current year's income tax computation for financial statement purposes. Interest income on this refund amounted to $2,286,000 which is included above as unusual. A reduction in deferred income taxes of $1,771,000 ($.24 per share) arising from utilization of net operating losses for years in which future taxes would have been payable is also reflected in the income tax computation for 1980 (See Note 13 for income tax computation).

2.35 As a result of better recordkeeping capabilities, all intercompany payables and receivables have been eliminated at August 2, 1980. Accordingly, the unreconciled excess of receivables and payables among the Company and its consolidated subsidiaries, which was included as a credit in accounts payable of $2,098,000 in 1979, has been eliminated.

2.36 During the year, the Company reviewed its method of computing its inventory. In order to be consistent with industry practices, a valuation allowance was provided to properly reflect store retail inventory at cost as well as other modifications of the Company's inventory methodology.

2.37 Sugar anti-trust litigation recovery represents the proceeds received from the settlement of a class action suit. This lawsuit, of which the Company was a plaintiff, involved various sugar suppliers who were convicted of price fixing practices on sugar products in violation of the Sherman Anti-trust Act.

3. Discontinued J.M. Fields and closed supermarket operations

In conjunction with the Chapter XI Proceedings, the Company discontinued its J.M. Fields discount department store operations and closed approximately 50% of its supermarkets, all of its meat processing and certain of its produce operations. The Company has been disposing of many of its interests in property and other assets related to such operations and is in the process of disposing of or liquidating other assets not essential to its ongoing operations. The proceeds from disposition or liquidation of the bulk of such assets are required by court orders and/or informal agreements with the Official Creditors' Committees to be segregated from operating accounts and restricted for specified purposes (Note 3.3) and to make initial payments called for under the proposed Plan of Arrangement (Note 4). The net operating results of J.M. Fields operations have been accounted for as a discontinued operation and disclosed separately in the financial statements.

3.1 Closed supermarket operations: The results for fiscal 1979 include the following amounts related to operations of closed supermarkets through February 10, 1979, the final measurement date as to closings:

	1979
Sales	$ 467,339
Costs and expenses:	
Costs of sales	396,383
Provision for creditors' claims	10,746
Operating and administrative expenses	119,098
Allocated interest expense, net	4,730
	530,957
Operating loss	($ 63,618)

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3.2 Net assets held for disposition: Assets of discontinued and closed operations and other assets not essential to ongoing operations are stated at estimated net realizable amounts and reduced by related liabilities. These net assets held for disposition, included in the consolidated balance sheets, consist of the following:

	August 2, 1980	July 28, 1979
Historical costs and deferred charges:		
Property and equipment, net	$ 50,652	$ 177,104
Investment in Amterre	9,904	9,904
Receivables and other, net	15,224	23,431
Deferred disposition losses net of gains, and from operations after February 10, 1979	12,160	78,595
	87,940	289,034
Estimated excess of recorded and future costs over proceeds through the end of the disposition program	(31,887)	(42,887)
Estimated net realizable value of assets held for disposition	56,053	246,147
Related liabilities:		
Mortgage loans payable (maturing 1981 to 1998, interest ranging from 5.0% to 8.375%)	(17,525)	(35,837)
Capitalized lease obligations	(26,410)	(120,560)
Deposits on future sales	(776)	(6,360)
	(44,711)	(162,757)
Net assets held for disposition	$ 11,342	$ 83,390

The Company owns all the preferred stock and 40% of the common stock of Amterre Development Inc, a publicly held developer of shopping centers and other real properties. The Board of Directors of Amterre have implemented a plan of complete liquidation and dissolution, which has been approved by the requisite vote of Amterre's stockholders, including a majority vote of all stockholders other than Food Fair and the officers and directors of Food Fair and Amterre. The Amterre plan provides, among other things, for the redemption at the stated redemption price of $100 per share of all 20,000 shares of Amterre 6% Preferred Stock which are held by the Company. The Company's equity in Amterre's operations of approximately $2,477,000 through December 31, 1978 was included in the caption "Other income, net" in 1979.

In 1979, the Company provided $42,887,000 for the estimated recorded and future costs over proceeds in connection with the closing and disposition of discontinued J.M. Fields and closed supermarket operations. During fiscal 1980, the status of the allowance as it related to the remaining assets held for disposition was reviewed, and it was determined that $11,000,000 originally provided was no longer required. Such amount has been included in the fiscal 1980 consolidated statement of operations as credits of $6,000,000 as an unusual item and $5,000,000 in discontinued operations.

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3.3 Restricted cash: Pursuant to court orders or informal agreements with the Official Creditors' Committees, the Company has placed a substantial portion of the proceeds realized from its disposition program in segregated bank and investment accounts or interest bearing funds. These proceeds and other funds are restricted for the following purposes:

	August 2, 1980	July 28, 1979
Satisfaction of claims of the creditors of Realmart, Inc. (a wholly-owned subsidiary, not in bankruptcy) and its subsidiaries	$ 45,153	$ 4,352
Trust fund for payment of obligations incurred after October 1, 1978 and available at confirmation to effectuate the proposed Plan of Arrangement with creditors	25,000	25,000
Appropriation for Capital Improvements Program	9,800	
Net reimbursement due Company for payments made in connection with certain store closings, operations and asset dispositions	9,568	9,698
Payment of fiduciary responsibilities	2,357	1,566
Short-term investments assigned as collateral	2,120	
Payments under employment agreement with the Company's current President and Chief Executive Officer	2,018	2,067
	96,016	42,683
Not presently specified	20,166	16,691
	116,182	59,374
Less reimbursement due Company	(9,568)	(9,698)
	$ 106,614	$ 49,676

The proceeds from the sale of the properties owned by Realmart, Inc. and its subsidiaries are to be segregated either individually or in joint escrow accounts. These escrow accounts are subject to further orders of the Court and subject to the creditors' claims of interest of Realmart, Inc. and its subsidiaries. Amounts in excess of the settlement of the creditors' claims of interest of Realmart, Inc. and its subsidiaries will be used to satisfy the Company's obligation under the proposed Plan of Arrangement. In order to facilitate the investment of these funds and to maximize the interest earned on the monies which are being held for the benefit of its creditors, the Company is including the Realmart proceeds with other net disposition proceeds for investment purposes. The Company is, however, separately accounting for the Realmart proceeds and can identify these funds.

Because of a lack of precision of court orders and informal agreements regarding restricted cash, it is possible that certain transactions may not have been appropriately recorded or classified in the Company's records affecting restricted cash accounts. However, in the opinion of management, the requirements of court orders and informal agreements have been met to the best of its ability under the circumstances.

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4. Proposed Plan of Arrangement

Immediately prior to October 2, 1978 when the Company and nine of its subsidiaries filed petitions for an arrangement under Chapter XI of the Bankruptcy Act, suppliers discontinued extending the Company trade credit under normal terms, and the Company was unable to extend short-term bank loans as they fell due or to obtain credit from other sources. Estimated losses from operations were believed by then to have reduced the Company's net worth below that required to be maintained under the Company's loan agreements with certain lenders. For these and other reasons, all of the Company's institutional indebtedness would likely have become due immediately, under the terms thereof, in which event the Company would have been faced with the prospect of having its bank accounts offset against outstanding indebtedness.

The Company, therefore, sought the protection of the Court from individual creditor actions under the provisions of the Bankruptcy Act to enable it to pursue its plans for restoring profitable operations while negotiating a plan of arrangement with its creditors. In order to emerge from Chapter XI Proceedings, a plan of arrangement proposed by the Company must be approved by a majority, in number and amount, of each class of the Company's unsecured creditors who have filed claims and are eligible to vote, and must, among other things, be found by the Court to be feasible and in the best interests of the creditors within the meaning of the Bankruptcy Act.

The proposed Plan of Arrangement has defined seven classes of creditors who have filed approximately 15,000 claims aggregating approximately $505,000,000 as of September 4, 1980, which excludes approximately 2,600 amended, duplicated or expunged claims aggregating approximately $248,000,000. The claims filed are substantially in excess of recorded amounts of $386,000,000 and are not necessarily indicative of the amounts at which they will be settled. In addition to filed claims, the Plan requires the Company to pay expenses of the Chapter XI Proceedings.

Authorization of new classes of preferred stock and an increased number of authorized common shares as contemplated in the proposed Plan of Arrangement must be approved by the Company's shareholders.

An Amended Consolidated Plan of Arrangement was approved by the Official Creditors' Committee in July, 1980 and filed with the Court on August 4, 1980. The Plan is predicated upon a substantive consolidation of the Chapter XI Proceedings. See Item 1 — Proposed Plan of Arrangement.

5. Transactions with certain parties

The Company, with Court authorization, retained the firm of Price Waterhouse & Co., independent certified public accountants, to conduct an extensive investigation of related party transactions. Price Waterhouse & Co. issued a report on transactions with related parties, which the Board of Directors authorized the Audit Committee to evaluate and determine what disposition the Company should make of all matters involving related parties; of shareholder suits concerning all matters involving related parties; and, of shareholder suits concerning former management.

On August 4, 1980, the Audit Committee negotiated and settled on behalf of the Company various class action and derivative action lawsuits that had been consolidated as a multidistrict action. The parties to this settlement shall: 1) pay to the shareholders of the Company $2,500,000 in full settlement of the class action litigation on behalf of the Company, 2) vote all shares of common and preferred stock which they own or over which they exercise control in favor of the corporate actions regarding the proposed Plan of Arrangement

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filed in Chapter XI Proceedings and the election of those persons nominated by the Company as directors, and 3) not oppose or delay the acceptance and confirmation of the Plan or the accomplishment of the corporate actions described above. These payments and actions were undertaken in settlement of most of the claims which were or could have been asserted against the Company concerning the subject matter of the Price Waterhouse & Co. report. The Audit Committee is also supervising a formal conflict of interest policy for the Company which includes periodic representation on such matters from key employees.

In addition to the Audit Committee's actions, the Board of Directors has approved a policy whereby all dealings with third parties, including suppliers and customers, should be based solely on objective criteria such as price, quality and service. The Board also has approved the following actions of management:

1) Adoption and distribution to officers and other key personnel of policies regarding conflicts of interest and improper payments,

2) Notification to suppliers that they can transact business directly with the Company or through intermediaries of their own choosing rather than through intermediaries related to former or current management, and

3) Establishment of procedures whereby any transaction involving a related party must be reviewed by the Corporate Secretary and President/Chief Executive Officer of the Company and must be approved by the Audit Committee prior to its occurrence.

The Securities and Exchange Commission and a Federal grand jury in the Eastern District of Pennsylvania are conducting investigations concerning transactions between the Company and certain parties. The Company has no indication as to what action, if any, may be taken by either the Securities and Exchange Commission or the grand jury. If, as a result of these investigations or the operations of the policies described above, it becomes apparent that additional actions are called for, management intends to act appropriately (See Note 3 for disclosure of transactions with Amterre Development Inc).

6. Commitments and contingencies

6.1 As a result of its bankruptcy proceedings (Note 4) and nonpayment of various obligations, or both, the Company and various of its subsidiaries are or may be in default under numerous loan agreements, indentures, promissory notes, guarantees, leases of real and personal property, security agreements, mortgages, and other contractual arrangements.

6.2 The Company's operations require it and certain subsidiaries to be licensed under the Perishable Agricultural Commodities Act ("PACA"), administered by the U.S. Department of Agriculture. In November, 1979, the Department advised the Company that it is investigating whether violations of PACA were committed by Food Fair as a result of nonpayment of obligations to certain produce suppliers for goods sold and delivered to the Company. In accordance with the policy of the Department, no action has been taken to terminate the present license, but representatives of the Department have indicated that such action would be taken following the termination of the Chapter XI Proceedings. The issuance of a new license may be refused unless a bond or other assurance satisfactory to the Secretary of Agriculture is provided to the Department of Agriculture. In addition, the Secretary of Agriculture may, among other remedies, suspend or revoke a license held by any entity which has been engaged in violations of the Act. The Company has been negotiating with the Department of Agriculture and is seeking a settlement which would allow it to continue as a business licensed under PACA after conclusion of the Chapter XI Proceedings. Based upon discussions

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with representatives of the Department, the Company believes that renewal of the license can be obtained upon the condition that the Company: 1) not have violated PACA during the pendency of the Chapter XI Proceedings, and 2) post a bond in the initial face amount of $3,000,000 for a five-year term, subject to increase based upon any future growth in the money dollar volume of PACA covered products purchased by the Company. The Company is currently considering the feasibility and acceptability of this alternative.

6.3 The Company, together with numerous other retail food companies, has been named as defendant in multiple civil actions by certain cattle producers and feeders alleging violations of the anti-trust laws in connection with the purchase and resale of beef. Management believes that no basis exists for the allegation and, after consultation with counsel, is of the opinion that these actions will not have a material adverse effect on the financial condition of the Company.

6.4 The Company has been named defendant in a lawsuit for a declaration of invalidity of an insurance policy. At the present time, this case is in the discovery phase of proceedings and management is not in a position to predict the outcome of the case. However, the Company has filed a counterclaim against the terminated insurance carrier for claims paid but not reimbursed by the insurance carrier in an amount approximating $9,400,000.

6.5 In addition to the settlement of claims with regard to related party transactions, as described in Note 5, the Company has settled the following lawsuits: On April 21, 1980, the Company reached a settlement with the New York Department of Taxation and Finance whereby the Company paid, on aggregate, approximately $3,011,000 in full settlement of all assessed sales and use taxes of the Company. In September, 1980, with Court approval, a tentative settlement was reached disposing of a $72,000,000 claim asserted for an alleged breach of contract. Under this settlement, the Company will contribute the sum of $125,000, subject to Court approval, to settle all claims against the Company.

6.6 The Company contributed to various Taft-Hartley multi-employer pension plans, jointly administered by industry and union representatives. The Company engaged independent actuaries to review the effects the store closings and discontinued operations had on the pension plans and the Company's liabilities thereunder. As to certain multi-employer plans in which the Company was a "substantial employer" and from which the Company withdrew as the result of the store closings, the Company would be liable for its allocated share of such plans' unfunded vested liabilities, if the plans terminate within five years of the Company's withdrawal. The actuaries have estimated such contingent liabilities at $856,000. Under prior provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), which the Company believes applicable, the Company may have to post a bond of up to 150% of such contingent liability with the Pension Benefit Guaranty Corporation ("PBGC"). With respect to two other multi-employer pension plans, in which it was also a "substantial employer", the Company does not believe it has "withdrawn" from such plans under the provisions of ERISA. The independent actuaries using available but incomplete data, reported that if the Company were held to have withdrawn from such plans, the potential liability of the Company in the event of future termination of the plans within five years of the date the Company was deemed to have withdrawn, would be approximately $14,000,000, for which the Company could be required by PBGC to post a 150% bond. The PBGC has not requested the Company to post bonds for such plans. The Trustees of such plans, however, have filed claims in Chapter XI Proceedings (which are not based upon any specified provision of ERISA), totaling approximately $50,000,000, in general, purporting to represent the Company's proportionate share of plan liabilities. In September, 1980, the Bankruptcy Court granted the Company's motion to expunge one of such claims amounting to approximately $32,000,000, however, the claimant has filed an appeal.

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7. Inventories

Inventories used in the determination of cost of sales consisted primarily of supermarket merchandise in the amounts of $79,196,000 and $85,602,000 in 1980 and 1979, respectively. In 1978, inventories used in the determination of cost of sales consisted of supermarket and discount store general merchandise of $267,063,000.

8. Investments and other assets

	August 2, 1980	July 28, 1979
Investments:		
Washington Square Life Insurance Co.	$ 4,143	$ 3,984
Other	703	232
	4,846	4,216
Other assets:		
Deposits with vendors, net of allowance for doubtful accounts of $1,125,000 in 1980 and $1,200,000 in 1979	4,708	5,410
Accounts and notes receivable non-current, net of allowance for doubtful accounts of $383,000 in 1980 and $531,000 in 1979	1,050	623
Supplies and other	1,720	1,326
	7,478	7,359
	$ 12,324	$ 11,575

Investments in Washington Square Life Insurance Co. (WSL), a wholly-owned subsidiary, and other companies are stated at the Company's equity in net assets. WSL provides life, accident and health insurance to the Company's employees and third parties and administers the Company's basic group life insurance programs. The Company's equity in the operations of WSL was a $159,000 profit for 1980 and $201,000 loss for 1979.

9. Borrowings

9.1 Prior to October 2, 1978, the Company had sold accounts receivable to a bank with recourse. During 1980, the Company received Court approval to pay $13,653,000 of this obligation from restricted funds with the bank filing an unsecured claim for the balance of $1,347,000 with the bankruptcy court. This balance is classified as liabilities deferred pursuant to proceedings under Chapter XI. Average borrowings were $5,794,000 and $15,000,000 in 1980 and 1979, respectively. Maximum borrowings in each year amounted to $15,000,000. The average interest rate was 17.25% in 1980 and 13.3% in 1979.

9.2 On July 28, 1978, the Company entered into a $28,000,000 revolving credit agreement with a consortium of banks and borrowed the full amount available. On May 25, 1979, the Company paid without prejudice the $28,000,000 loan balance plus interest. However the collateral, which includes certain land and buildings, its investment in and advances to Amterre, and certain notes receivable, has not been released by the lenders.

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9.3 Long-term debt consists of mortgage loans, collateralized by substantially all owned land and buildings, maturing from 1981 to 2001 with interest ranging from 4.5% to 10.5%. At August 2, 1980 and July 28, 1979, the Company was in default of restrictive covenants in certain of the agreements and the lenders had the right to accelerate payment of the outstanding borrowings under these agreements.

The aggregate annual maturities of long-term debt for the five years subsequent to August 2, 1980 and thereafter in total are:

	Maturities under default	Maturities assuming no defaults or waiver thereof
1981	$ 5,282	$ 1,638
1982	1,438	1,690
1983	1,303	1,508
1984	1,248	1,350
1985	1,206	1,317
Thereafter	3,528	6,502
	$14,005	$14,005

9.4 Substantially all other unsecured short and long-term debt has been reclassified to liabilities deferred pursuant to proceedings under Chapter XI (Note 4) or net assets held for disposition (Note 3). Interest on such debt ceased to accrue as a result of the Chapter XI filing on October 2, 1978.

9.5 At July 28, 1979, approximately $1,863,000 of long-term debt, which was not in default, was classified as current in default. Accordingly, the 1979 current portion of long-term debt has been reclassified.

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10. Leases

Supermarket leases are generally capital leases with initial terms of up to 25 years usually with several 5 year renewal options. Equipment leases are for data processing equipment, transportation equipment and store fixtures and equipment.

Capitalized leased assets:

	August 2, 1980	July 28, 1979
Supermarkets	$ 69,043	$ 77,905
Equipment	21,587	22,265
	90,630	100,170
Less accumulated depreciation	45,126	44,439
	$ 45,504	$ 55,731

The future minimum rental commitments as of August 2, 1980 for all noncancellable leases are as follows:	Capital Leases	Operating Leases
1981	$ 10,203	$ 4,346
1982	9,773	3,703
1983	9,100	2,971
1984	8,244	2,845
1985	6,994	2,409
Thereafter	43,323	23,918
Total minimum lease payments	87,637	$ 40,192
Less amount representing imputed interest	33,168	
Present value of net minimum lease payments	$ 54,469	

Minimum lease payments do not include contingent rentals which may be paid under certain supermarket leases on the basis of a percentage of sales in excess of stipulated amounts. Contingent rentals for capital leases amount to $1,231,000 and $777,000 in 1980 and 1979, respectively. Under the terms of the Company's operating leases, rental expense was $4,681,000 in 1980. Contingent rentals amounted to $748,000 for operating leases in 1980.

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11. Redeemable preferred stock

The Company is obligated to set aside $120,000 in cash semi-annually as a sinking fund for the redemption of the preferred stock, unless preferred stock dividends are in arrears. The sinking fund obligation is reduced by $100 for each share of preferred stock actually redeemed or purchased. In 1979, the Company did not declare or pay three of the four required quarterly preferred stock dividends and accordingly, ceased setting aside funds for the sinking fund. The Company did not declare or pay the preferred stock dividends for the 1980 fiscal year; hence, the cumulative preferred stock dividend arrearage reached six quarterly dividends and the holders of the preferred stock therefore became entitled to elect two members of the Board of Directors of the Company. To effectuate the proposed Plan of Arrangement, the Company intends to seek the necessary shareholders' approval of certain amendments to its Restated Articles of Incorporation, including significant changes in the rights and preferences of the outstanding preferred stock and restricting the payment of cash dividends. At August 2, 1980 cumulative preferred stock dividends in arrears amounted to $119,000, equivalent to seven quarterly dividend payments.

In the 1979 fiscal year prior to October 2, 1978, the Company redeemed 75 shares of the preferred stock through open market purchases totalling $5,000. The $2,000 excess of the stated redemption value over the cost of preferred stock redeemed was credited to capital in excess of par.

12. Stock options

The Board of Directors adopted on April 11, 1979, and the Bankruptcy Court approved by order dated May 2, 1979, a nonqualified employee stock option plan (Plan) for not more than 150,000 shares of common stock.

Under the Plan nontransferable options may be granted to certain officers and key employees at prices equal to the mean of the closing bid and asked prices on the date of grant. The Plan provides that no option may be exercised prior to six months after the date of grant and that options are cumulatively exercisable thereafter at 25% annually. The options expire ten years from the date of grant.

Changes under the Plan were as follows:

	Number of Shares		
	Reserved	Options Granted	Options Available
Balance, July 30, 1978			
Reserved	150.0		150.0
Granted		105.0	(105.0)
Balance, July 28, 1979	150.0	105.0	45.0
Cancelled		(25.0)	25.0
Granted		52.5	(52.5)
Balance, August 2, 1980	150.0	132.5	17.5

The aggregate option prices and fair market value for options outstanding at August 2, 1980 (132,500 shares) and July 28, 1979 (105,000 shares) was $552,000 ($3.375 to $4.00 per share) and $462,000 ($3.50 to $4.44 per share), respectively.

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During fiscal 1980, options for 53,125 shares became exercisable at prices which range from $3.50 to $4.44 (aggregate option prices of $228,000). The fair market value at the date the options became exercisable ranged from $3.00 to $4.50 per share or $205,000 in total. No options were exercisable in 1979 or exercised in 1980.

In addition to the above Plan, on January 4, 1979, the Company granted its current President and Chief Executive Officer a nontransferable option to acquire up to 200,000 shares of its common stock at $2.00 per share exercisable on or before January 2, 1984 (fair value quotation of $587,500 at date of grant). The difference between the fair market value and the option price at date of grant was charged to operations. No part of this option has been exercised.

13. Income Taxes

Income tax expense in 1980 consists of:	
State taxes payable	$ 89
Deferred tax benefit	(1,771)
Refund on taxes provided in prior years	(2,666)
Provision in lieu of income taxes	6,391
	$ 2,043

A reconciliation of the income tax expense with taxes computed at the statutory Federal income tax rate of 46% is as follows:

	%	Amount
Taxes computed at statutory rate	46.0	$6,084
State income taxes, net of Federal tax effect	3.0	396
Federal income tax refunds	(20.2)	(2,666)
Reduction in deferred income taxes arising from utilization of net operating loss	(13.4)	(1,771)
	15.4	$2,043

The provision in lieu of income taxes represents the equivalent amount which would be required in the absence of the available operating loss carryforwards. The Company has recognized a tax benefit of $8,841,000 ($6,391,000 from continuing operations and $2,450,000 from discontinued operations) resulting from the utilization of net operating loss carryforwards as a reduction of taxable income. This benefit has been recorded as an extraordinary item.

The Federal income tax returns of the Company have been examined by the Internal Revenue Service through 1978. As a result of their examination, it was determined that a refund of taxes paid in prior years of $6,875,000 including interest of $2,286,000 was due the Company. This refund has been approved by the Joint Committee of Congress on Taxation. In addition to interest income, the Company has recognized $2,666,000 in refunds in the current year, which represents those benefits not recognized previously. The Company has proposed a settlement of various tax claims included in liabilities deferred pursuant to proceedings under Chapter XI. This proposal would allow the Company to offset their tax refunds against these claims which approximate $5,800,000.

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The Company and its subsidiaries file a consolidated Federal income tax return. At August 2, 1980 the Company has available to reduce future taxable income a net operating loss carryforward approximating $121,000,000 (subject to certain restrictive provisions of the Internal Revenue Code) which expires in 1986. For financial reporting purposes, an additional $110,000,000 has been expensed which is not currently deductible for tax purposes but will also be available to reduce future taxable income. No deferred taxes have been provided since the net operating loss carryforward for tax return purposes exceeds those amounts not currently deductible.

Investment tax credits of approximately $6,710,000 are available at August 2, 1980 (subject to certain restrictive provisions of the Internal Revenue Code) for use in Federal income tax returns. These investment tax credits expire in varying amounts annually through 1987.

14. Pension plans

The Company and its subsidiaries have various noncontributory pension plans covering certain hourly and salaried employees. Most other full-time and certain part-time employees are covered by industry plans jointly administered by the union and Company representatives. Pension expense for all pension plans for 1980 and 1979 was $4,728,000 and $4,699,000, respectively.

According to the most recent valuations, the actuarially computed value of vested benefits for certain of the plans exceeded fund assets and balance sheet accruals by approximately $6,751,000. The total unfunded prior service cost of all the plans is estimated to be $11,977,000. The Company could, under certain circumstances, be liable for substantial unfunded vested benefits or other costs of certain union administered plans (Note 6).

15. Accounting changes

In 1979, the Company changed certain methods of accounting in order to be consistent with industry practices as follows: (1) the exclusion of certain warehousing costs in the determination of supermarket inventories; and (2) the discontinuance of deferring payroll tax expense. These warehousing costs and payroll taxes are now charged to income as incurred.

The effect of these changes are included in the operations of fiscal year ended July 28, 1979 as follows:

	Benefit	Cumulative Effect Prior Years
Warehouse costs	$1,555	$3,195
Payroll taxes	1,536	2,368
	$3,091	$5,563

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16. Selected interim financial data (unaudited)

	QUARTER ENDED			
	November 17, 1979 (16 Weeks)	February 9, 1980 (12 Weeks)	May 3, 1980 (12 Weeks)	August 2, 1980 (13 Weeks)
Net sales	$331,475	$259,830	$259,253	$273,509
Gross profit	$ 67,743	$ 51,211	$ 54,250	$ 57,156
Income before unusual items, income taxes and extraordinary item	$ 95	$ 458	$ 1,544	$ 428
Unusual items:				
Bankruptcy related (costs) and income	($ 58)	$ 565	$ 1,358	$ 3,150
Other unusual items		$ 677		$ 5,008
Income tax expense (benefit)	$ 18	$ 850	$ 1,451	($ 276)
Income from discontinued operations				$ 2,550
Extraordinary item — effect of utilization of tax carryforward benefits	$ 18	$ 850	$ 1,451	$ 6,522
Net income	$ 37	$ 1,700	$ 2,902	$ 17,934
Per share data:				
Income from continuing operations before discontinued operations and extraordinary item*	$ —	$ .12	$ .20	$ 1.20
Discontinued operations				.35
Extraordinary item	—	.11	.19	.89
Net income	$ —	$ .23	$ .39	$ 2.44

*Income per share from continuing operations before discontinued operations and extraordinary item includes unusual items of $.09, $.09 and $.57 per share after tax allocation for the quarters ended February 9, 1980, May 3, 1980 and August 2, 1980, respectively; and, $.60 per share of deferred tax and tax refund benefits in the quarter ended August 2, 1980.

The unusual item of $677,000 in the quarter ended February 9, 1980 represents the major portion of amounts recovered from suppliers as a result of sugar anti-trust litigation recovery. See Note 2.3 for description of the other unusual amounts recorded in the quarter ended August 2, 1980.

Unaudited selected interim period information for fiscal 1979 is not presented since in the Company's judgement such information would not provide a meaningful comparison because of the substantial disruptions during the year in the Company's business, the institution of the Chapter XI Proceedings, and, the closing of major portions of the Company's business. In addition, these factors adversely affected the Company's ability to report financial information with respect to those periods and as provided in Rule 12b-21 under the Securities Exchange Act of 1934, information has been given only insofar as it is known or reasonably available to the registrant.

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17. Supplementary information on effects of changing prices (unaudited)

In accordance with the requirements of Financial Accounting Standards Board Statement No.33, "Financial Reporting and Changing Prices", certain financial information which was prepared on the basis of historical costs has been adjusted to reflect the impact of inflation. Two different methods are prescribed by Statement 33 for measuring the estimated effects of changing prices. Both require the use of approximations and estimates and are intended to provide approximate rather than precise indicators of the effects of inflation. It is important to recognize that the methods and interpretations thereof are in their development state and will require refinement over time. In addition, accounting and internal conrol conditions could have affected the approximations and estimates used for fiscal 1979 and prior fiscal years.

The first method, "Constant Dollars", requires the adjustment of historical costs for the impact of general inflation by using the Consumer Price Index for all Urban Consumers (CPI-U) as a measurement of the general inflation rate. The objective of this method is to provide financial statement information in dollars of equivalent purchasing power (constant dollars). Application of this method requires converting opening and closing inventory amounts, and property and equipment of the Company's ongoing operations into average Fiscal 1980 dollars with the resulting adjustments to ongoing cost of goods sold and depreciation and amortization expense. This is accomplished by applying to the original asset cost the change in the CPI-U for the elapsed period from acquisition to Fiscal 1980. These adjustments result in increases in depreciation and amortization of $10,614,000 and an increase in cost of goods sold of $9,911,000. In the opinion of management, the increase of cost of goods sold resulting from the restatement of inventory under the constant dollar method does not properly reflect the effects of inflation as this method presumes the retention of inventory over extended periods of time. In reality, the time span between the purchase and sale of inventory in substantially all of the Company's operation is sufficiently short to provide for the reflection of the effects of inflation in historical financial information.

Net sales and expenses other than those related to asset adjustments are not required to be adjusted as they are stated substantially in average Fiscal 1980 dollars in the historical financial statements.

The second method, "Current Cost", adjusts historical costs for the impact of changes in specific prices. The objective of this method is to reflect the current cost of the assets utilized in the Company's ongoing operations, rather than their historical costs.

The information adjusted for the change in specific prices was prepared by converting historical carrying costs of property and equipment to the cost of replacing these assets at August 2, 1980 with a corresponding adjustment to related depreciation and amortization expense. These adjustments were generally based on external price indexes. As indicated above, inflation's effect on inventory is reflected in the historical statements and accordingly the adjustment to inventories and cost of goods sold, exclusive of depreciation and amortization was minimal. The adjustment to depreciation and amortization for specific price changes was $13,228,000.

The gain from decline in purchasing power results from holding constant net monetary liabilities during periods of inflation. Net monetary liabilities are amounts owed, reduced by cash and claims to cash, all of which are fixed in terms of dollar value. Redeemable preferred stock is considered a monetary liability.

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FOOD FAIR, INC.
(DEBTOR IN POSSESSION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Fifty-Three Weeks Ended August 2, 1980 and Fifty-Two Weeks Ended July 28, 1979

(figures in tables in thousands)

STATEMENT OF LOSS FROM ONGOING OPERATIONS AND SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR CHANGING PRICES

Year Ended August 2, 1980

	Operations	Adjusted for general inflation	Adjusted for changes in current costs
Net revenues	$1,128,650	$1,128,650	$1,128,650
Costs and expenses:			
Cost of sales	893,707	905,297	895,964
Operating and administrative expenses	227,949	237,474	239,907
Interest expense, net	4,469	4,469	4,469
	$1,126,125	$1,147,240	$1,140,340
Income (loss) from operations before unusual items	$ 2,525	($ 18,590)	($ 11,690)
Deficiency in assets at year end	($ 140,190)	($ 37,314)	($ 21,287)
Gain in purchasing power of net monetary liabilities		$ 59,581	
Increase in value of inventories and property and equipment held during the year based on:*			
General price level			$ 36,545
Specific prices (current cost)			29,302
Excess of increase in general price level over increase in specific prices			$ 7,243

* August 2, 1980 current cost of inventories was $77,702,000 and current cost of property and equipment, net of accumulated depreciation was $218,630,000.

FIVE YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

	FISCAL YEARS				
	1980	1979	1978	1977	1976
Revenues	$1,128,650	$1,686,235	$3,463,559	$3,242,669	$3,543,200
Cash dividends per common share	$ —	$ —	$ .25	$ .27	$ .28
Market price per common share	$ 3.00	$ 3.50	$ 6.00	$ 7.50	$ 7.50
Average consumer price index	234.9	207.1	188.8	176.8	166.9

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SCHEDULES FURNISHED
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OF REGULATION S-X

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FOOR FAIR, INC.

(DEBTOR IN POSSESSION)

SCHEDULE II —AMOUNTS RECEIVABLE FROM UNDERWRITERS, PROMOTERS, DIRECTORS, OFFICERS, EMPLOYEES AND PRINCIPAL HOLDERS (OTHER THAN AFFILIATES) OF EQUITY SECURITIES OF THE PERSON AND ITS AFFILIATES

Column A	Column B	Column C	Column D			Column E	
			Deductions			Balance at close of period	
Name of debtor	Balance at beginning of period	Additions	(1) Amounts Collected	(2) Amounts written off	(3) Other	(1) Current	(2) Not Current
Year ended August 2, 1980:							
J. Coppinger		$ 32,500					$ 32,500
H. Zandler	$ 22,500		$ 22,500				
	$ 22,500	$ 32,500	$ 22,500				$ 32,500
Year ended July 28, 1979:							
J. Millman	$ 27,000				$ 27,000(b)		
H. Zandler	22,500					$ 22,500	
R. Reiner	40,000		$ 20,000		20,000(a)		
E. DiFillipo	15,000				15,000(a)		
H. Kirschner	17,800				17,800(a)		
	$122,300		$ 20,000		$ 79,800	$ 22,500	

Note: Each of the above individuals is an employee of the Company.

(a) Applied against guaranteed bonuses payable.

(b) Compensation for decline in value of home of relocated employee.

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FOOD FAIR, INC.
(DEBTOR IN POSSESSION)
SCHEDULE V—PROPERTY AND EQUIPMENT
(figures in tables in thousands)

Column A	Column B	Column C	Column D	Column E	Column F	Column G
Classification	Balance at beginning of period	Additions at cost	Retirements	Reclassification to (from) net assets held for disposition	Other changes— add (deduct)— describe	Balance at end of period
Year ended August 2, 1980:						
Land	$ 7,323	$ 27	$ 169	($ 594)	$	$ 7,775
Buildings	27,653		609	2,724		24,320
Leasehold improvements	17,822	5,518	404	2,656	(71)(a)	20,209
Fixtures and equipment	49,345	10,814	1,299	6,198	71)(a)	52,733
Automobiles and trucks	10,311	296	1,018	3,438		6,151
Leased assets capitalized	100,170	1,955	11,169	326		90,630
	$212,624	$ 18,610	$ 14,668	$ 14,748(b)	$ –	$201,818
Year ended July 28, 1979:						
Land	$ 27,499	$ 1,768	$ 674	$ 21,270	$	$ 7,323
Buildings	90,660	3,454	655	65,802	(4)(a)	27,653
Leashold improvements	57,572	1,055	1,895	38,914	4 (a)	17,822
Fixtures and equipment	118,482	3,865	3,957	69,087	42 (a)	49,345
Automobiles and trucks	10,602	195	174	270	(42)(a)	10,311
Leased assets capitalized	361,895	1,644		263,369		100,170
	$666,710	$ 11,981	$ 7,355	$458,712 (b)	$ –	$212,624

(a) Reclassifications.

(b) As of August 2, 1980 approximately $373,380,000 has been disposed.

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FOOD FAIR, INC.
(DEBTOR IN POSSESSION)
SCHEDULE VI— ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY AND EQUIPMENT

(figures in tables in thousands)

Column A	Column B	Column C	Column D	Column E	Column F	Column G
Description	Balance at beginning of period	Additions charged to costs and expenses	Retirements	Reclassification to (from) net assets held for disposition	Other changes— add (deduct)— describe	Balance at end of period
Year ended August 2, 1980:						
Buildings	$ 12,469	$ 843	$ 419	$ 1,129	$	$ 11,764
Leasehold improvements	9,126	1,340	113	1,107	(20)(a)	9,226
Fixtures and equipment	29,170	4,575	1,145	3,148	20 (a)	29,472
Automobiles and trucks	8,825	345	1,014	2,948		5,208
Leased assets capitalized	44,439	5,874	5,333	(146)		45,126
	$104,029	$ 12,977	$ 8,024	$ 8,186 (b)	$ –	$100,796
Year ended July 28, 1979:						
Buildings	$ 41,747	$ 2,380	$ 553	$ 31,102	($ 3)(a)	$ 12,469
Leasehold improvements	26,662	2,974	789	19,720	(1)(a)	9,126
Fixtures and equipment	72,943	8,333	3,956	48,184	34 (a)	29,170
Automobiles and trucks	8,329	881	27	328	(30)(a)	8,825
Leased assets capitalized	153,631	12,485		121,677		44,439
	$303,312	$ 27,053	$ 5,325	$221,011 (b)	$ –	$104,029

(a) Reclassifications.

(b) As of August 2, 1980 approximately $179,769,000 had been eliminated due to dispositions.

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FOOD FAIR, INC.
(DEBTOR IN POSSESSION)
SCHEDULE XII—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(in thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at beginning of period	Charged to costs and expenses	Reclassification to net assets held for disposition	Deductions-describe	Balance at end of period
Year ended August 2, 1980:					
Allowance for doubtful accounts:					
Current	$ 3,257	$ 568	($ 228)	$ 151 (b) 153 (d) 117 (e)	$ 3,176
Deposits	1,200			75 (d)	1,125
Accounts and notes receivable, non-current	531			(117)(e) 265 (d)	383
Closed operations	11,443		228	1,450 (d)	10,221
Allowance for loss on the disposal of assets of terminated operations	42,887			11,000 (f)	31,887
	$59,318	$ 568 (a)	$ –	$13,094	$46,792
Year ended July 28, 1979:					
Allowance for doubtful accounts:					
Current	$ 2,062	$13,355	($11,443)	$ 717 (b)	$ 3,257
Deposits		1,200			1,200
Accounts and notes receivable, non-current		531			531
Closed operations			11,443		$11,443
Allowance for loss on the disposal of assets of terminated operations		46,955		4,068 (c)	42,887
	$ 2,062	$62,041 (a)	$ –	$ 4,785	$59,318

	1980	1979
(a) Increase in reserve above	$ 568	$62,041
Charged directly to bad debt expense		969
Total expense	$ 568	$63,010

(b) Write-off uncollectible accounts.

(c) Charges to reserve for leases disaffirmed subsequent to July 28, 1979.

(d) Recoveries of amounts fully provided for as uncollectible.

(e) Reclassifications.

(f) Reduction in overprovision of estimated losses on assets held for disposition.

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FOOD FAIR, INC.
(DEBTOR IN POSSESSION)
SCHEDULE XVI—SUPPLEMENTARY INCOME STATEMENT INFORMATION

(in thousands)

Column A	Column B	
	Charged to Costs and Expenses	
Item	1980	1979
Maintenance and repairs	*	*
Depreciation and amortization of property and equipment	$12,977	$27,053
Depreciation and amortization of intangible assets, preoperating costs and similar deferrals	*	*
Taxes, other than income taxes:		
Payroll	*	$22,211
Property and general	*	13,508
		$35,719
Rents	*	$17,069
Royalties	*	*
Advertising costs	*	$34,389

*Less than 1% total sales and revenues

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